STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

AMEREN ILLINOIS COMPANY	)	
d/b/a Ameren Illinois,	)	
Petitioner	)	**Docket No. 13-0301**
	)	
Rate MAP-P Modernization Action Plan -	)	
Pricing Annual Update Filing	)	

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TABLE OF CONTENTS

I. INTRODUCTION 1

A. Overview 1

B. Nature of AIC's Operations 3

C. Legal Standard 3

II. RATE BASE 3

A. Resolved Issues 3

1. Construction Work in Progress (CWIP) 3

a. Accounts Payable 3

b. Duplicate Projects 4

B. Contested Issues 4

1. Cash Working Capital 4

a. Pass Through Taxes 4

b. Income Tax Expense Lead Days 8

2. Accrued Vacation Reserve 9

3. ADIT for Metro East Transfer 12

4. OPEB Contra Liability 17

C. Original Cost Determination 21

D. Recommended Rate Base 22

1. Filing Year 22

2. Reconciliation Year 22

III. OPERATING REVENUES AND EXPENSES 22

A. Resolved Issues 22

1. Company Use of Fuels 22

2. Outside Professional Services 23

a. Illinois Power Payments 23

b. SFIO Non-Rate Case Expense 23

3. Incentive Compensation – Derivative Adjustment 24

4. Rate Case Expense 24

a. Legal Standard – Recoverability of Docket 12-0001 and 12-0293 Costs 24

b. Amount to Be Recovered in Rates 26

5. Industry Dues Expense 26
6. Miscellaneous General Expense (Wells Fargo) 27
7. Strategic International Group Expense (Account 909) 27
8. Account 588 – Miscellaneous Distribution Expense: 28
a. Economic Consulting Fees 28
b. Advertising Costs 28
c. Individual Expenses 28
d. Purchases - Other (AIC Self-Disallowed Expense) 29
e. Purchases – Other (Reclassified Capital) 29
f. Purchases – Other (Reclassified Rate Case Expense) 29
g. Relocation Expense (AIC Self-Disallowed Expense) 30
9. Miscellaneous Operating Revenues – Overheads and Miscellaneous 30
B. Contested Issues 31
1. Miscellaneous Operating Revenues – ARES 31
2. Relocation Expense – Loss on Sale and Payroll Uploading (Account 588) 33
3. Purchases – Other (Account 588) 37
4. Other Credit Card Expenses 48
5. Sponsorship Expense (Account 930.1) 54
6. Community Outreach Expense (Account 908) 65
7. Advertising and Public Relations Expense 68
a. Potentially Comparable Simantel Expense (Account 909) 68
b. Potentially Comparable Simantel Expense (Account 930.2) 70
c. Other Simantel Expenses (Account 930.2) 74
d. Other Public Relations Expense (Account 930.2) 77
C. Recommended Operating Revenue and Expenses 80
1. Filing Year 80
2. Reconciliation Year 81
IV. COST OF CAPITAL AND RATE OF RETURN 81
A. Resolved Issues 81
1. Rate of Return on Common Equity 81

2. CWIP Accruing AFDUC Adjustments 81
3. Balance and Embedded Cost of Preferred Stock 82
B. Contested Issues 82
1. Capital Structure 82
2. Common Equity Balance 97
a. Purchase Accounting/Goodwill 99
b. Purchase Accounting/Income Statement 100
3. Balance and Embedded Cost of Long-Term Debt 106
4. Balance and Embedded Cost of Short-Term Debt, including Cost of Credit Facilities 112
C. Recommended Overall Rate of Return on Rate Base 114
1. Filing Year 114
2. Reconciliation Year 115
V. COST OF SERVICE AND RATE DESIGN 115
A. Resolved Issues 116
VI. FORMULA RATE TARIFF 116
A. Separate Proceeding in Docket Nos. 13-0501/13-0517 to Litigate Merits of Proposed Template Changes 116
B. Process for Implementation of Formula Rate Template Changes in Docket No. 13-0301, if Approved in Docket Nos. 13-0501/13-0517 116
C. Proposed Template Changes in Docket Nos. 13-0501/13-0517 (for Purpose of Identification of Revenue Requirement Impact if Approved) 116
1. Uncollectible Expenses in the Reconciliation Year 116
2. Gross-up of Reconciliation with Interest and/or Collar revenue requirement adjustments for Uncollectible Expense 116
3. Year-end balances for Materials & Supplies and Customer Deposits 116
4. Depreciation Expense 116
5. Separate Cash Working Capital Calculation for Filing and Reconciliation Year 116
6. Return on Equity Collar Calculation 116
7. Reconciliation Interest Calculation 116
D. Recommended Revenue Requirement 116

1. Filing Year 116
2. Reconciliation Year 116
VII. OTHER ISSUES 117
A. Resolved Issues 117
1. UCB/POR Program Costs 117
2. FERC Order – Docket No. AC 11-46-000 117
3. Reporting Requirement – FERC Form 60 117
4. Reporting Requirement – Service Company Allocations 118
5. Reporting Requirement – FERC Orders 118
6. Supply Cost Adjustments Under Rider PER 118
7. Categorization EIMA Plant Additions – Formula Rate Proceedings 119
8. Reporting of EIMA Costs – Formula Rate Proceedings 119
B. Contested Issues 120
1. Use of Traditional Ratemaking Schedules in Formula Rate Proceedings 120
2. Preparation of Exhibits, Schedules, and Workpapers in Formula Rate Proceedings 122
VIII. CONCLUSION 124

I. INTRODUCTION

A. Overview

This is AIC's first full reconciliation under the Energy Infrastructure and Modernization Act (EIMA), 220 ILCS 5/16-108.5, *et seq.* Under EIMA, an electric utility that commits to undertake the extensive infrastructure investment program outlined in the statute may elect to recover its delivery services costs through a performance based formula rate. The performance based formula rate tariff for AIC, Rate MAP-P, provides for recovery of a utility's actual, prudently incurred and reasonable delivery services costs, reflects the utility's actual year-end capital structure for the applicable year (excluding goodwill) and includes a cost of equity. To the extent the formula rate under- or over-recovers the cost of service, there is a reconciliation process (this case) to provide the utility or its customers "what the revenue requirement would have been had the actual cost information for the applicable calendar year been available at the filing date." 220 ILCS 5/16-108.5(c)(6).

Of particular importance in this case is the requirement that: "The performance-based formula rate approved by the Commission shall . . . Reflect [AIC's] *actual* year-end capital structure for the applicable calendar year, excluding goodwill, subject to a determination of prudence and reasonableness consistent with Commission practice and law." 220 ILCS 5/16-108.5(c)(2) (emphasis added). The reason this particular requirement is important is that AIC's actual capital structure supports its investment activity. EIMA requires AIC to invest over $600 million in upgrading its electric distribution system, facilities, and smart grid technology over a 10-year period. 220 ILCS 5/16-108.5(b)(2)(B). The Commission has approved AIC's plan to implement the lion's share of that investment. *See Ameren Ill. Co.*, Docket 12-0244, Order on Reh'g. (Dec. 5, 2012). As a result, AIC's capital investment over the next five years is expected to nearly double that of the last five. Because AIC's capital requirements are increasing

significantly, consistent and reliable access to external capital is essential. AIC's ability to maintain access to secure funding for this investment at a reasonable cost is dependent on the strength of its credit quality. The composition of AIC's capital structure, in particular its balance of common equity, is a significant factor in determining that credit quality.

Section 16-108.5(c)(2) requires use of AIC's actual capital structure, subject to a determination of prudence and reasonableness. In other words, the presumption in the law is the Commission should annually reset AIC's formula rate, using AIC's actual capital structure, unless the evidence demonstrates that actual structure is imprudent or unreasonable. The substantial weight of the evidence in the record in this case demonstrates AIC's actual 2012 capital structure is reasonable and prudent.

AIC specifically managed the 54.33% common equity ratio to maintain the strong financial ratios evaluated by the credit rating agencies when they assess creditworthiness. That actual common equity balance supports AIC's current investment grade ratings. Accordingly, AIC has reflected its actual capital structure in this case without any adjustment to reduce the balance of common equity.

Staff and IIEC, however, would have the Commission impute some other capital structure. Their proposals are arbitrary and unsupported, and they do not demonstrate that AIC has managed its capital structure imprudently or unreasonably. As AIC explains in detail below, there is no basis in the record to impute a different capital structure and no basis to otherwise make a finding of imprudence or unreasonableness that would support something other than AIC's actual capital structure. To adopt Staff or IIEC's proposals, however, could cause adverse effect on AIC's credit quality. To support the investment mandated by EIMA, the Commission must approve AIC's actual capital structure.

B. Nature of AIC's Operations

AIC is a combination gas and electric public utility whose service area is located in central and southern Illinois and consists of the former service territories of its three predecessor companies: AmerenCILCO, AmerenCIPS, and AmerenIP. AIC was formed on October 1, 2010, when AmerenCILCO and AmerenIP were merged into AmerenCIPS. Concurrent with the merger, the newly-formed company changed its name to Ameren Illinois Company and began doing business as Ameren Illinois. Ameren Illinois provides electric delivery service to approximately 1.2 million customers.

C. Legal Standard

The annual update of cost inputs and reconciliation for Rate MAP-P is governed by Section 220 ILCS 5/16-108.5(d) of the Act.

II. RATE BASE

A. Resolved Issues

1. Construction Work in Progress (CWIP)

a. Accounts Payable

Staff witness Mr. Ostrander and AG witness Mr. Brosch proposed similar adjustments to Construction Work in Progress (CWIP). Both Staff and the AG recommended reducing CWIP by the amount of outstanding accounts payable at the end of 2012, arguing that these amounts represent financing provided by vendors rather than shareholders. (ICC Staff Ex. 2.0, p. 4; AG Ex. 1.0C, pp. 42-45.) Although AIC responded in rebuttal testimony that the adjustment was unnecessary because AIC will pay vendors the outstanding amounts well in advance of collecting funds from ratepayers (Ameren Ex. 9.0 (Rev.) (Stafford Reb.), pp. 49-40), AIC accepted the adjustment in order to narrow the issues in the case. (Ameren Ex. 18.0 (2d Rev.) (Stafford Sur.), p. 13.) As such, this adjustment is not contested.

b. Duplicate Projects

Mr. Ostrander also proposed an adjustment to reduce the 2012 year-end amount of CWIP by the projects that are also included in projected plant additions. (ICC Staff Ex. 2.0, pp. 3-4.) AIC accepted this adjustment. (Ameren Ex. 9.0 (Rev.) (Stafford Reb.), p. 49.) Thus, all issues related to CWIP have been resolved.

B. Contested Issues

1. Cash Working Capital

a. Pass Through Taxes

AIC proposes that the expense leads for Energy Assistance Charges (EAC) and Municipal Utility Taxes (MUT) be set at 4 days and 14 days, respectively. (Ameren Ex. 1.1, p. 19 of 30, lines 19-20, col. D.) AIC's proposed expense leads are based on the results of a lead-lag study AIC conducted as part of Docket 12-0001, and updated to reflect the revenue and expenses for the calendar year at issue in this proceeding. (Ameren Ex. 1.0 (Stafford Dir.), p. 23.) The expense leads reflect the amount of time AIC *actually* had access to the EAC and MUT funds in 2012. (Tr. 411.) Given that one purpose of this proceeding is to perform a reconciliation based on the "actual cost information" for 2012, it is appropriate for AIC to utilize the expense leads for pass-through taxes that reflect its actual information.

As a general matter, the lead-lag study measures the timing differences between when AIC incurs an expense in order to provide goods or services, when AIC receives cash from its customers, and when AIC makes cash payments in satisfaction of its obligations. (Tr. 406.) The purpose of a lead-lag study is to determine the amount of cash AIC has on hand at any given point to conduct its business. (Tr. 406; *see also* ICC Staff Ex. 2.0, p. 6.) A lead-lag study is based on determinations of "revenue lag" and "expense leads." The term "revenue lag" refers to periods of time between when AIC incurs a cash outlay for provision of service, and when it

receives payments for that service from customers. (ICC Staff Ex. 2.0, p. 6.) Conversely, the term "expense lead" refers to the period of time between when AIC receives cash from its customers, and when it uses that cash to make payments in satisfaction of its obligations. (*Id.*)

With respect to the EAC and MUT (collectively, pass-through taxes), the lead-lag study set the revenue lag days at zero, since AIC does not provide services and so incur cash outlays associated specifically with the pass-through taxes.[1] To calculate the expense lead days applicable to pass-through taxes, the lead-lag study assumed that AIC collects payments from customers, on average, on the 15th of each month. (Ameren Ex. 15.0 (Heintz Reb.), p. 13.) The lead-lag study reflected that AIC remits the EAC to the appropriate authority on the 20th of each month following billing, and the MUT to the appropriate authority on the 30th of each month after billing. (*Id.*) Thus, the lead-lag study determined that the lead days—the number of days AIC *actually* had access to the funds—associated with the pass-through taxes was 4 days and 14 days, respectively. (*Id.*, pp. 13-14.)

In this proceeding, Staff and the AG recommend expense lead days and recommend expense leads of 38.54 days for the EAC and 48.54 days for the MUT. (AG Ex. 1.3, p. 2; ICC Staff Ex. 2.0, pp. 8, 9.) Their adjusted expense leads are not based on actual practice, however, but are simply "ratemaking" adjustments. Moreover, both Staff witness Mr. Ostrander and AG witness Mr. Brosch rely entirely on previous Commission decisions to support their positions. (Tr. 416:14-18; AG Ex. 3.0, p. 16.) Indeed, when asked "Is your conclusion regarding the 38-day expense lead for the pass-through taxes based solely on the Commission decisions in Docket Numbers 12-0001 and 12-0293?" Mr. Ostrander responded, "Yes." (Tr. 416: 14-18.) Similarly, when asked, "Was any analysis required for your EAC and MUT lead day values?" Mr. Brosch

[1] The Commission found that a zero day revenue lag was appropriate in Dockets 12-0001 and 12-0293. *Ameren Ill. Co.*, Docket 12-0001, Order, p. 14 (Sept. 19, 2012); *Ameren Ill. Co.*, Docket 12-0293, Order, p. 38 (Dec. 5, 2012).

responded, "No… there was no need to conduct any new 'analysis' to support the lead day values that have already been reviewed and approved by the Commission." (AG Ex. 3.0, p. 16.)

The parties' reliance on past Commission decisions is misplaced. The prior cases, Dockets 12-0001 and 12-0293, did address the question of pass-through taxes, but the Commission's findings in those cases were limited to the issue of the appropriate revenue lag for the taxes. *Ameren Ill. Co*., Docket 12-0001, Order, p. 14 (Sept. 19, 2012); *Ameren Ill. Co.*, Docket 12-0293, Order, p. 38 (Dec. 5, 2012). The Commission, however, did not make any express finding on the *expense lead* in those cases, which is the issue here. Specifically, in Docket 12-0001, Staff, AG and IIEC recommended that the revenue lag associated with pass-through taxes be set at zero, since the taxes are payable only after revenues are collected from customers. *Ameren Ill. Co*., Docket 12-0001, Order, p. 14. The Commission concluded, "the appropriate *revenue lag* days for this issue should be zero." *Id.* (emphasis added). Similarly, in Docket 12-0293, the parties again argued that the lag days for pass-through taxes should be set at zero. *Ameren Ill. Co.*, Docket 12-0293, Order, p. 38. Once again, the Commission determined to "adopt the use of zero *lag days* for pass-through taxes." *Id.* (emphasis added). Neither decision considered the propriety of the *expense lead days* for pass-through taxes. Therefore, the question of the proper expense leads remains unresolved.

AIC's proposal in this case properly accounts for the Commission's decisions in Dockets 12-0001 and 12-0293, which were based on the fact that AIC does not incur a cash outlay for pass-through taxes until after it received the funds to cover the expense. *See Ameren Ill. Co.*, Docket 12-0001, Order, p. 14; *Ameren Ill. Co.*, Docket 12-0293, Order, p. 38. AIC's proposal in this case reflects a zero-day revenue lag. (Ameren Ex. 1.0, p. 24.) Importantly, however, AIC's proposal also reflects the appropriate expense leads—those that account for the actual number of

days the funds associated with pass-through taxes are held by AIC. (Tr. 411.)

No party disputes that AIC remits the pass-through taxes to the appropriate authorities in 4 days and 14 days after receiving the funds from its customers. (*See* Ameren Ex. 15.0, pp. 14-15; Tr. 411.) Instead, Staff and the AG argue that AIC theoretically could remit the funds up to 30 days later than its current practice. (Tr. 411-12; AG Ex. 1.3, p. 2.) But neither Staff nor the AG seeks to require AIC to change its current remittance practices, and neither party claims AIC's remittance practices are improper (they are not). (Tr. 416; AG Ex. 3.0, p. 18.) Thus, AIC's recommendation is the only one offered in this case that reflects the actual impact of the pass-through taxes on AIC's cash working capital. For this, reason, it should be adopted.

Furthermore, AIC is not the only entity that will be impacted by the Commission's determination of this issue—adoption of the lead days recommended by Staff and the AG for the pass-through taxes would likely cause AIC to change its remittance practices to comport with the imputed expense lead days. (Ameren Ex. 23.0 (Heintz Sur.), p. 3.) As AIC witness Mr. Heintz explained, AIC will need to consult with the taxing authorities to determine if and how any change in the remittance schedule could be implemented. (Ameren Ex. 15.0, p. 10.) In addition, AIC would be required to make systems-related changes prior to implementing any modifications in the remittance schedule, and such changes could require substantial time and expense. (*Id.*) For example, AIC reports and pays the EAC based upon billings, as opposed to collections, so it would be necessary to change the systems used to determine how the amount of tax due is calculated. (*Id.*) Requiring such changes imposes costs on AIC. (Ameren Ex. 23.0, p. 4.) The better course is for the Commission to not require AIC to bear those costs, but instead to reflect AIC's actual practice for pass-through taxes and the actual time that AIC has access to the funds at issue.

If the Commission determines to adopt the adjusted, imputed pass-through tax lead days, however, the Commission should also clearly articulate in its final order in this proceeding that all reasonable and prudently-incurred incremental costs associated with the modification of the current remittance practices should be included in and recovered via the rates established in the Company's next electric formula rate proceeding.

b. Income Tax Expense Lead Days

AIC has a long-standing practice of employing statutory tax rates and payment dates when calculating its income tax expense for revenue requirement purposes. (Ameren Ex. 15.0 (Heintz Reb.), p. 16.) AIC therefore calculated its cash working capital associated with income tax expense using the statutory tax rates and payment dates, and combining income taxes with deferred taxes. (*Id*.) This calculation method maintains consistent treatment of income tax expense for ratemaking purposes, is supported by Staff (ICC Staff Ex. 7.0, p. 9), and is consistent with the Commission's long-standing practice. *Ameren Ill. Co.*, Docket 12-0293, Order, pp. 45-46 ("The Commission agrees that it has a long-standing practice of not considering current and deferred income taxes separately."); *Ameren Ill. Co.*, Docket 12-0001, Order, p. 29; *see also* ICC Staff Ex. 7.0, p. 9 (noting that the same method was applied by AIC and approved by the Commission in Docket Nos. 11-0282, 09-0306 *et al.* (cons.), and 07-0585 *et al*. (cons.)).

Despite this established practice, AG witness Mr. Brosch recommends that the revenue lead and expense lag days for income taxes be set to zero in AIC's cash working capital analysis. (AG Ex. 1.0, p. 26.) Mr. Brosch contends his proposal recognizes that AIC is not currently paying income taxes, as a result of deferrals. (*Id.*) Mr. Brosch also argues that his proposal is appropriate because it would conform AIC's treatment of income taxes for cash working capital purposes to the treatment used by Commonwealth Edison. (*Id.*, p. 28.)

The AG proffered the same arguments in AIC's most recent electric formula rate

proceeding, without success. *Ameren Ill. Co.*, Docket 12-0293, Order, pp. 44-46. In that case, the Commission "recognize[d] that a different result was adopted in the ComEd docket, Docket 11-0271; however, the Commission recognized in its Docket No. 12-0001 Order that ComEd and AIC calculate income taxes using different methodologies." *Id.* The Commission concluded that, "should those methodologies align in the future, or new evidence be presented, [it would] re-visit the issue in future proceedings." *Id.* Although Mr. Brosch cited this language in his direct testimony, he admitted that ComEd and AIC continue to use different methods to calculate income tax expense for cash working capital purposes, and failed to present any new evidence on the subject whatsoever. (AG Ex. 1.0, p. 26.)

In light of the clear, long-standing directive of the Commission on this issue, the AG's proposal should be rejected.

2. Accrued Vacation Reserve

Staff witness Mr. Ostrander and AG witness Mr. Effron have proposed an adjustment to deduct AIC's accrued vacation reserve net of ADIT from the rate base. (AG Ex. 2.0, pp. 7-8, Sch. DJE-1; ICC Staff Ex. 2.0, p. 12, Sch. 2.03).[2] As has been extensively argued and briefed in prior dockets before the Commission (and now on appeal), AIC opposes this adjustment because it is based on the fundamentally flawed conclusion that this amount represents a continuous source of ratepayer-supplied funds. It does not.

The Entries Recognizing Vacation Accruals Do Not Provide a Source of Funds to AIC.

The amount at issue represents an accounting convention used to record the amount of

[2] These parties calculated the amount of the adjustments differently. The AG's proposed adjustment of $6,782,000 was calculated using 2012 *average balance of accrued vacation.* (AG Schedule DJE-1). Staff proposed a $7,053,000 adjustment using the 2012 *year-end balance of accrued vacation reserve*. (ICC Staff Ex. 2.03.) While AIC disputes the adjustment, it would be more appropriate to use the year-end figure because accrued vacation reserve is a component of rate base and under Public Act 98-0015 the rate base components are calculated with year-end values.

employee vacation time earned by employees, but not yet taken. (Ameren Ex. 9.0 (Rev.) (Stafford Reb.), p. 44.) Each year, employees earn vacation time, and like other accrued expenses, this time is recorded when earned. This may be where the confusion originates; generally, accruals may be a "source of ratepayer supplied funds." But this general rule follows from the fact that such expenses are recovered from ratepayers the year they are incurred and *before* they are actually paid, and thus these expenses represent a cash reserve that could be used to fund rate base investment. For example, accumulated depreciation is properly deductible from rate base, because this expense allows AIC to collect money from ratepayers *before* it pays for the future replacement of machinery and equipment. Here, however, the general rule does not apply because the ratepayer pays for the expense *after* the expense has been paid by AIC. (Ameren Ex. 18.0 (2d. Rev.) (Stafford Sur.), pp. 15-16.) Table 1 of Mr. Stafford's rebuttal testimony clearly illustrates this delay in AIC's recovery of vacation pay expense, showing that vacation accruals were made in 2012, paid by the Company in 2013, and will not be reimbursed by ratepayers until 2014. (Ameren Ex. 9.0 (Rev.), p. 47.)

The accrued vacation reserve represents *time* owed to employees, not dollars owed. It is not a cash reserve that AIC can access to fund its operations. It is not a "source of funds," and therefore does not present a valid basis for a rate-base deduction. (Ameren Ex. 18.0 (2d Rev.), p. 16.)

The Commission's Prior Decisions Were Incorrect and Should Be Revisited.

It is true that the Commission in prior dockets concluded that the accrued vacation reserve should be deducted from rate base because of the (faulty) assumption that it, like certain operating reserves, is a constant source of ratepayer-supplied funds. *Commonwealth Edison Co.,* Docket 11-0721, Order, p. 70 (May 29, 2012); *Ameren Ill. Co.*, Docket 12-0001, Order, p. 59; *Ameren Ill. Co.*, Docket 12-0293, Order, pp. 12-13. Each of these orders is currently being

appealed, and none succeeds in addressing the fundamental difference between accrued vacation pay and other operating reserves.

First, in Docket 11-0721, the Commission changed course from prior Commission Orders and found that ComEd had failed to satisfy its burden of proving that accrued vacation pay was not a source of capital, while finding that Staff and certain intervenors had established that this item was a "source of revenue." *Commonwealth Edison Co.,* Docket 11-0721, Order, p. 70. Staff and the intervenors did not establish this; they merely said so. They claimed that "vacation pay expense is accrued well in advance of when it is actually paid" (*Commonwealth Edison Co.,* Docket 11-0721, AG Ex. 4.0, p. 4:79-80 (filed Feb. 24, 2012)) and that "the lag between the accruals and the cash payments creates a constant non-investor source of funds which should be deducted from rate base similar to other operating reserves." (*Commonwealth Edison Co*., Docket 11-0721, ICC Staff Ex. 16.0, p. 29:622-624 (filed Feb. 24, 2012).). But whatever the evidence might have shown in ComEd's case, the evidence in AIC's case demonstrates that the ratepayer payments are received well *after* AIC pays the expense. Staff's failure to differentiate vacation expense accruals from other operating reserves led to its faulty conclusion in Docket 11-0721. And the Order in that case did not recognize that this type of accrual is different than other types of operating reserves, or that this accounting entry is not "funds."

When the issue was raised again in Docket 12-0001, the Commission summarily concluded that accrued vacation pay should be deducted from rate base because it had done so in the prior Docket, stating "there [was] no discernable difference between this proceeding and Docket No. 11-0721 that would properly result in disparate rate making treatment of the same item between the two dockets." *Ameren Ill. Co.*, Docket 12-0001, Order, p. 59. Again, AIC's arguments were not addressed.

Finally, in Docket 12-0293, the Commission concluded that vacation pay should be treated as an operating reserve and deducted from rate base. *Ameren Ill. Co.*, Docket 12-0293, Order, pp. 12-13. Again, the Order lacked any acknowledgment that this type of accrued expense is not "funds" or that AIC is not compensated for this expense item before it makes payment, but after. What the Commission seemed to find controlling was that the liability for accrued vacation is continuing and permanent. *Id.*, p. 13. While it is true that employees continue to earn vacation time, it is also true that AIC continually pays out this time. (Ameren Ex. 18.0 (2d. Rev.), p. 15-16.) And AIC's payment is not recovered from ratepayers until well after it is made. (*Id.*) In other words, this adjustment will withhold funds from AIC for expenses it has already paid. However, importantly, the adjustment will not offset funds AIC has already collected.

AIC implores the Commission to revisit this issue and its incorrect underlying rationale. The conclusion that accrued vacation expense represents a source of ratepayer-supplied funds is simply not true.

3. ADIT for Metro East Transfer

Both Staff and the AG presented testimony recommending that the Commission reduce AIC's rate base by approximately $5.62 million. The adjustment is premised on the 2005 transfer of Union Electric's gas assets to CIPS. In accounting for that transfer, CIPS recorded a deferred tax asset that reduced accumulated deferred income taxes (ADIT). (AG Ex. 2.0, p. 4.) Because ADIT reduces rate base, recording this asset had the effect—if considered in isolation—of temporarily increasing rate base. (Ameren Ex. 18.0 (2d Rev.) (Stafford Sur.), p. 19.) Asserting that a "transfer of property from one regulated utility to another should not result in any increase to the net [rate base] value of those assets" (AG Ex. 2.0, p. 5:104-106), the AG and Staff argue that the deferred asset should be reversed and rate base reduced. (*Id*., p. 6; *see also*

ICC Staff Ex. 2.0, p. 15:294-96 ("the rate base value attributable to them for ratemaking purposes should not change because those assets were transferred between affiliates").)

For a number of reasons, the Metro East adjustment should be rejected.

The Alleged Premise for the Adjustment—That There Has Been a Net Increase in Rate Base—Is Simply Not True.

To begin, it should be made clear what the basis for the adjustment is *not*: namely, that any error occurred either in CIPS's purchase of assets from Union Electric or in accounting for the transfer. Not only has no party suggested that any such error occurred, but the Commission specifically approved both elements of the transfer. In 2000 and 2004, the Commission twice reviewed the transfer of the Metro East assets, first pertaining to the electric assets and then later to gas. *See Cent. Ill. Pub. Serv. Co*., Dockets 00-0650/00-0655 (Cons.), Order (Dec. 20, 2000); *Cent. Ill. Pub. Serv. Co*., Docket 03-0657, Order (Sept. 22, 2004). In both dockets, the Commission approved the transfer. The most recent Order, although it concerned the gas assets, reviewed accounting that was identical in principle to the transfer of electric assets. In that Order, the Commission specifically found that the transfer was "in the public interest" and that "neither the ratepayers of AmerenUE nor of AmerenCIPS are likely to be adversely affected in the event the proposed asset transfer and reorganization takes place." *Cent. Ill. Pub. Serv. Co*., Docket 03-0657, Order, p. 17. In short, the adjustment is not premised on any imprudence or erroneous accounting by AIC, as recently confirmed by the Commission. *Ameren Ill. Co.*, Docket 12-0293, Order, p. 34.

Rather, the adjustment is purely *ad hoc*, premised solely on the notion that the normal operation of ADIT rules had a negative impact on ratepayers by increasing net rate base. (ICC Staff Ex. 7.0, p. 15:306-07 ("Ratepayers should not be required to pay a return on an increased rate base . . . ."); AG Ex. 2.0, p. 5:104-06 ("this transfer of property from one regulated utility to

another should not result in any increase to the net value of those assets in the Company's rate base").)

But the premise of this argument is not just incorrect, it is opposite reality. The uncontroverted record evidence shows that the ADIT impact of the transfer has not harmed ratepayers but *benefited* them.

The Transfer Restarted and Extended the Accumulation of ADIT Associated with the Assets.

Staff and the AG both point out that when Union Electric's assets were transferred to CIPS, the ADIT on the seller's books did not follow the assets to CIPS's books. (They do not question whether this was correct accounting, which it was.) But because ADIT reduces rate base, they assert that the transfer effectively increased the value of the assets in CIPS's rate base. This is actually correct, as far as it goes. But it does not go far enough.

That is because, as Staff witness Mr. Ostrander agreed, "the higher rate base . . . is temporary." (Tr. 398:10-11.) The Metro East transfer did not end the accumulation of ADIT on the assets, but actually extended and increased it. Following the transfer, the transferred assets were treated as though they were placed in service on the date of the transfer. (Ameren Ex. 18.0 (2d Rev.), p. 20.) So, although Union Electric's accrued ADIT did not follow the assets to CIPS, tax depreciation on the assets *started over*. (*Id*., p. 23.) This is undisputed: Staff witness Mr. Ostrander agreed during cross-examination that "tax depreciation for CIPS . . . started over on the transferred assets as if the assets were installed and placed in service on the date of the transaction." (Tr. 395:1-5; *see also* Tr. 395:23-24 – 396:1-2 (Staff witness Mr. Ostrander agreed "ADIT has accumulated on the Metro East transferred assets after the time of the transfer").)

Why is this significant? Because tax depreciation is what generates tax-timing differences and hence ADIT. (Ameren Ex. 18.0 (2d Rev.), p. 24-25.) So while the ADIT

generated at Union Electric did not come to CIPS, ADIT started accumulating all over again on CIPS's books following the transfer.

The New ADIT on AIC's Books Likely Now Exceeds—and Certainly Will Exceed—the ADIT Written off of Union Electric's.

This is why Staff and the AG are incorrect to assert that there was a *net* increase in rate base as a result of the transfer. Mr. Ostrander specifically agreed that the rate-base increase was "temporary because over time ADIT will accrue that will *offset the amount of the increase*." (Tr. 398:14-17 (emphasis added); *see also id*. at 397:23-24 – 398:1-4 (Staff witness Mr. Ostrander: one "ratemaking effect of the [Metro East] transfer" is "the deduction of . . . accrued ADIT from the date of the transfer forward").)

While the nature of the problem makes precise calculation difficult, the record shows that "it is likely that the ADIT deduction for the transferred assets would be greater under AIC's [proposed treatment], than if the transfer had not taken place." (Ameren Ex. 18.0 (2d Rev.), p. 22:457-59.) Thus, far from harming ratepayers, the ADIT impact of the transfer *benefited* them—it effectively restarted and extended the period of tax depreciation and thus reduced rate base by millions more dollars.

Thus, the sole premise of the adjustment does not exist: there has been no net increase in rate base. As Staff witness Mr. Ostrander testified, although there was an increase in rate base immediately following the transfer, it was "temporary." (Tr. 398.) It is likely that the newly accrued ADIT on AIC's books now *exceeds* the vintage ADIT from Union Electric's books. (Ameren Ex. 18.0 (2d Rev.), p. 22.) But whether the new ADIT has already overtaken the old is beside the point: it is certain that it will, and Illinois ratepayers "will receive the full tax benefits from accelerated depreciation . . . with corresponding ADIT . . . recognized as a reduction to rate base." (*Id*., p. 20:418-20.)

Perhaps this is partly why the Commission held that "neither the ratepayers of AmerenUE nor of AmerenCIPS are likely to be adversely affected in the event the proposed asset transfer and reorganization takes place." *Cent. Ill. Pub. Serv. Co.*, Docket 03-0657, Order, p. 17. The transfer essentially restarted the accrual of ADIT and gave ratepayers an extension on its rate-base reducing effect.

In summary, the sole premise of the adjustment is false. Ratepayers will not pay more for the assets as a result of the transfer; they will pay (and likely are paying) less.

Adopting the Proposed Adjustment Would Result in Double-Counting of ADIT—Giving Ratepayers an Undeserved Windfall.

Ratepayer benefit is not the only reason the proposed adjustment should be rejected, however. Even if there was not a ratepayer benefit, forcing AIC to recognize Union Electric's ADIT as well as CIPS' would double-count ADIT.

The ADIT that makes up the proposed adjustment arises from the same assets that are currently generating ADIT on AIC's books. As Mr. Stafford explained, "under the Staff and AG proposals . . . tax depreciation is counted in the ADIT balance on [Union Electric's] books at the time of the transfer . . . and then counted again as ADIT accrues going forward [on CIPS's books]." (Ameren Ex. 18.0 (2d Rev.), p. 23:476-78.) In other words, "ADIT accrued at the time of the transfer would be deducted from rate base. Then, ADIT accrual would start over after the transfer, and that ADIT would also be deducted from rate base." (*Id*., p. 24:497-99.)

Double-counting is inappropriate in ratemaking, and this provides another reason to reject the adjustment proposed by Staff and the AG.

The Past Precedent Both Specifically Approving the Transfer and Related Accounting and Specifically Rejecting this Adjustment Further Calls into Question Its Propriety.

In AIC's view, it is questionable whether an appropriately accounted-for transfer should ever provide the basis for a rate penalty, particularly when the Commission: (a) specifically

approved the transfer itself; (b) specifically approved the accounting for the transfer; and (c) specifically held that ratepayers were *not* harmed by the transfer. *Cent. Ill. Pub. Serv. Co.*, Docket 00-0650/00-0655, Order, p. 16 (Dec. 20, 2000); *Cent. Ill. Pub. Serv. Co.*, Docket 03-0657, Order, p. 17. In fact, in the proceeding approving the transfer, Staff proposed a correction to the accounting for deferred taxes, so the Commission was well aware of the deferred tax issue when they determined that ratepayers would not be harmed. *Id*. As if this were not enough precedent, a substantially identical adjustment has already been proposed and rejected not once, but twice, in AIC's electric formula-rate cases. *Ameren Ill. Co.*, Docket 12-0293, Order, pp. 33-34; *Ameren Ill. Co.*, Docket 12-0001, Order, p. 69.

4. OPEB Contra Liability

AIC has reflected in rate base an Other Post-Employment Benefits[3] (OPEB) Contra-Liability amount of $1.4 million, representing the balance in AIC's OPEB liability account at year-end 2012. (Ameren Ex. 9.0 (Rev.) (Stafford Reb.), p. 16; ICC Staff Ex. 3.01.) This amount represents the year-end 2011 OPEB liability, plus the OPEB accruals for 2012 of $7.9 million (Sch. C-11.3a) less the actual payments in 2012 into the OPEB Trust of $19.7 million (Sch. B-2.12). The approved formula rate schedules have a specific line item (Line 34) on Sch. FR B-1 for inclusion of the OPEB liability balance in Rate Base, even if the year-end 2012 balance is negative, or "contra." (Ameren Ex. 9.0 (Rev.), pp. 18-19.) Because the OPEB Contra Liability represents amounts funded into the OPEB Trust in excess of amounts recovered from customers as operating expenses in rates, inclusion in rate base is appropriate.

AIC uses accrual-based accounting for its OPEB expense, and this accrual based expense amount is used to set the level of the OPEB operating expense recovered in rates. (Ameren Ex.

[3] The primary benefit provided under the Trust is post employment retirement medical benefits to employees.

18.0 (2d Rev.) (Stafford Sur.), p. 45.) Payments into the OPEB Trust fund, however, may not be the same as the accrual amount. The balance in the OPEB liability account represents any difference between the accruals and the payments: the difference between amounts accrued for OPEB expense, net of payments made into the Trust, is recorded as a liability if accruals exceed payments, or as a contra balance in the liability account, if payments exceed accruals. (Ameren Ex. 9.0 (Rev.), p. 16.) For 2012, the difference in actuarially-determined Medicare Part D payments and reimbursements has resulted in payments into the Trust in excess of accruals. (*Id.*, p. 17.) This results in a contra liability amount, which increases rate base.

Staff proposes to remove the OPEB Contra Liability amount from rate base. Staff's position is based on its assertions that: (i) the OPEB Contra Liability is funded by ratepayers, not shareholders, because the monies to make the payments come from utility revenues irrespective of whether payments into the Trust exceed the accrual expense (ICC Staff Ex. 8.0, p. 8); and (ii) a series of Peoples/North Shore Orders establish a Commission practice that shareholders should not earn a return on ratepayer-supplied funds. (ICC Staff Ex. 3.0, pp. 6-7.) In short, Staff takes the position that AIC should earn no return on the amount by which payments exceed accrual expense.

This issue is one of first impression for AIC under formula rates. The crux of the dispute is whether the funds paid into the OPEB Trust in excess of the accrual expense amount are funds provided by ratepayers. Staff claims that ratepayers have supplied the difference in funds both when payments into the OPEB trust are *less* than the accrual amount in rates *and* when payments into the OPEB trust are *more* than the accrual amount in rates. This is a logical contradiction, and so should be rejected.

It is not disputed that, where payments into the OPEB Trust in a given year have been

less than the accrual expense amount on which rates are set, the Commission has found a deduction of the difference from rate base appropriate. (Ameren Ex. 9.0 (Rev.), p. 18.) In other words, where AIC has been paying amounts into the Trust that are less than the amount being recovered through rates, that difference represents ratepayer supplied funds and is deducted from rate base. *Ameren Ill. Co.*, Docket 11-0282, Order, p. 18; *Central Ill. Light Co., et al.*, Docket 09-0306 (Cons.), Order, p. 90 (April 29, 2010).

The situation in this case is the opposite: AIC has, in 2012, funded more into the OPEB Trust than was recovered in rates. Thus, AIC's *actual experience* in 2012 was that it made payments in excess of the accrual amounts and produced the contra-liability. Staff, nevertheless, claims that ratepayers supplied the difference between the payments and the accrual amount, despite the fact that the rates those ratepayers paid included only the accrual amount. Staff, however, does not explain how the ratepayers supply more funds than the amount included in rates, other than to assert, without explanation, that the "underlying source of monies paid to the OPEB Trust Fund is utility revenues collected from ratepayers." (ICC Staff Ex. 8.0, p. 8.) But there is no segregated account for contributions into the OPEB trust. (Ameren Ex. 18.0 (2d Rev.), p. 46.) The OPEB contra-liability balance is based on funding into the Trust that exceeds operating expenses. Since rates are designed to recover operating expenses, a source other than operating revenues is required to fund the remainder. (*Id.*)

In essence, the OPEB contra-liability represents timing differences, as Staff acknowledges: "The accrual of expense and the payment of contributions to the OPEB Trust Fund typically occur at different times." (ICC Staff Ex. 8.0, p. 8.) In this case, AIC has in 2012 funded more into the OPEB Trust than the accrual expense amount reflected in rates. By including this difference as an OPEB contra-liability and reflecting it in rate base, AIC earns a

return on this amount and is compensated for the timing difference. In other words, inclusion of the OPEB contra-liability compensates AIC for the time value of the additional funding dollars it spent in 2012. In years where the payments into the OPEB Trust are less than the accrual expense amount, resulting in a positive OPEB Liability balance, ratepayers would be compensated for the time value of their money by deducting the amount from rate base. But when payment amounts are greater than the accrual amount, resulting in a negative, or contra, OPEB Liability balance, symmetry requires that AIC include the additional amount in rate base. (Ameren Ex. 9.0 (Rev.), p. 19.) This treatment is also appropriate because it allows AIC to recover its actual costs of delivery services, as required under the EIMA. 220 ILCS 16-108.5(c)(1).

The Peoples/North Shore cases cited by Staff in testimony (ICC Staff Ex. 3.0, pp. 6-7) are inapposite. They address the treatment of pension assets, not OPEB contra-liabilities, for a gas utility, not an electric utility, under traditional ratemaking, not the formula rate law.

Staff, however, believes that treatment of a pension asset and the OPEB contra-liability are "similar issues." (ICC Staff Ex. 8.0, Att. A, p. 25.) If that is the case, then Staff's position that *no return* is warranted on the OPEB contra-liability is not supported. Electric utilities have received a return on pension assets in the past. *Commonwealth Edison Co.*, Docket 10-0467, Order, pp. 50-51 (May 24, 2011) (authorizing recovery of return costs of pension funding to extent of ratepayer benefit); *Commonwealth Edison Co.*, Docket 05-0597, Order on Reh'g, p. 28 (Dec. 20, 2006) (authorizing debt return on pension asset); *Central Ill. Light Co.,* Docket 94-0040, 1994 PUC Lexis 577, Order at *10 (Dec. 12, 1994) (allowing pension asset in rate base). And the legislature has authorized a debt return for pension assets under the formula rate law governing this proceeding. 220 ILCS 5/16-108.5(c)(4)(D). Presumably, the legislature was

aware of both cases cited by Staff as well as those cited above when it adopted the pension asset return provision, and determined that pension assets should receive some return. Thus, any similarity between the OPEB contra-liability and a pension asset supports the conclusion that the OPEB contra-liability should also earn some return. As Staff proposes no return at all, only AIC's inclusion of the OPEB contra-liability in rate base allows the contra liability to earn a return.

Finally, policy considerations demand encouraging appropriate OPEB funding. That is, the Commission should encourage OPEB contributions, not penalize utilities and their shareholders for making them and so discourage utilities from complying with their retirement funding obligations. *See, e.g., Commonwealth Edison Co.*, Docket 05-0597, Order on Reh'g, p. 28 (return on pension asset "consistent with the Commission's objective of encouraging utilities to fund pension obligations and, at the same time, allowing recovery of reasonable costs of providing funding.") For these reasons, the Commission should approve inclusion of the OPEB contra-liability in rate base.

C. Original Cost Determination

AIC requests the Commission approve an original cost of electric plant in service as of December 31, 2012, before adjustments for projected plant additions, of $5,234,063,000. (Ameren Exs. 1.0 (Stafford Dir.), p. 21; 1.5.) Staff recommends the Commission approve the Company's request for an original cost finding. (ICC Staff Ex. 2.0, p. 20.) Staff further recommends that if the Commission makes any adjustments to plant, those adjustments should also be reflected in the original cost determination. (*Id.*) Staff suggests the following form of language in the Findings and Orderings paragraphs in this proceeding:

> (x) the Commission, based on AIC's proposed original cost of plant in service as of December 31, 2012, before adjustments of $5,234,063,000 and reflecting the Commission's determination adjusting that figure, unconditionally approves

$_____ as the composite original cost of jurisdictional distribution services plant in service as of December 31, 2012.

D. Recommended Rate Base

1. Filing Year

The proposed filing year rate base, without template changes, is shown on Schedule FR A-1 of Appendix A. The proposed filing year rate base, with template changes AIC is recommending be adopted in Dockets 13-0501/13-0517 (cons.), is shown on Schedule FR A-1 of Appendix B.

2. Reconciliation Year

The proposed reconciliation year rate base, without template changes, is shown on Schedule FR A-1-REC of Appendix A. The proposed reconciliation year rate base, with template changes AIC is recommending be adopted in Dockets 13-0501/13-0517 (cons.), is shown on Schedule FR A-1-REC of Appendix B.

III. OPERATING REVENUES AND EXPENSES

A. Resolved Issues

1. Company Use of Fuels

Staff witness Ms. Ebrey expressed concern that AIC could recover more than 100% of its common costs for Company Use of Fuels, as a result of different allocation factors being proposed in the ongoing electric and gas formula rate proceedings. (ICC Staff Ex. 1.0, pp. 21-22.) In his rebuttal testimony, AIC witness Mr. Ronald Stafford explained why AIC used different allocation factors in the gas and electric formula rate proceedings, and that the use of different allocators would not result in recover of more than 100% of AIC's common costs. (Ameren Ex. 9.0 (Rev.) (Stafford Reb.), pp. 25-26.) Ms. Ebrey argued that the labor allocator, which AIC used in the ongoing gas case, was more appropriate than the general plant allocator

used in the instant case. (ICC Staff Ex. 6.0, p. 18.) In order to narrow the scope of contested issues in this case, AIC accepted Ms. Ebrey's recommendation that the labor allocator be used to allocate Company Use of Fuels. (Ameren Ex. 18.0 (2d Rev.) (Stafford Sur.), p. 9.) Therefore, the allocation of Company Use of Fuels is no longer contested.

2. Outside Professional Services

a. Illinois Power Payments

Staff witness Mr. Ostrander proposed an adjustment to reduce Outside Professional Services expense by removing payments made by AIC to the surviving spouse of a former Illinois Power employee under an agreement that obligated AIC to pay monthly stipends to the former employee for the rest of his life, and then to his spouse if he preceded her in death. (ICC Staff Ex. 2.0, pp. 16-17.) AIC accepted this adjustment, and the issue is therefore resolved. (Ameren Ex. 9.0 (Rev.), p. 7.)

b. SFIO Non-Rate Case Expense

Staff witness Mr. Ostrander also proposed an adjustment to reduce Outside Professional Services expense by removing the cost of consulting services provided by Mr. Salvatore Fiorella. (ICC Staff Ex. 2.0, p. 17.) Mr. Ostrander claimed these costs were not related to the provision of utility services because the consulting services were duplicative of the responsibilities of AIC personnel, and sought proof that the services provided were not redundant. (*Id.*) AIC witness Ms. Jacqueline Voiles questioned Mr. Ostrander's conclusion that the services provided by SFIO were redundant, and explained that the services did not duplicate the work of any internal AIC personnel. (Ameren Ex. 26.0 (Voiles Sur.), pp. 15-22.) Specifically, Ms. Voiles objected to the fact that Mr. Ostrander had not explained which services SFIO duplicated, and thus required AIC to prove a negative. (*Id.*, p. 17.) In order to narrow the scope of contested issues in this case, however, AIC agreed to withdraw its request to recover these expenses, in exchange for Staff's

agreement to withdraw its proposed adjustment to fees paid to Wells Fargo Advisors. (Ameren Cross Ex. 3.) Therefore, this issue is no longer contested. See Appendix C, Schedule 1.

3. Incentive Compensation – Derivative Adjustment

Staff witness Ms. Ebrey recommended that payroll taxes and pension expense amounts derived from incentive compensation costs for which AIC did not seek recovery be removed from the revenue requirement. (ICC Staff Ex. 6.0, pp. 18-19.) AIC accepted this adjustment, and the issue is therefore resolved. (Ameren Ex. 18.0 (2d Rev.), pp. 10-11.)

4. Rate Case Expense

a. Legal Standard – Recoverability of Docket 12-0001 and 12-0293 Costs

Section 16-108.5(c)(4)(E) of the Act provides for the recovery of expenses associated with proceedings before the Commission under the formula rate law or EIMA as follows:

> recovery of the expenses related to the Commission proceeding under this subsection (c) to approve this performance-based formula rate and initial rates or to subsequent proceedings related to the formula, provided that the recovery shall be amortized over a 3-year period; recovery of expenses related to the annual Commission proceedings under subsection (d) of this Section to review the inputs to the performance-based formula rate shall be expensed and recovered through the performance-based formula rate.

220 ILCS 5/16-108.5(c)(4)(E). The "expenses related to the Commission proceeding under this subsection (c) to approve this performance-based formula rate and initial rates" are the expenses related to the initial proceeding to approve the formula rate tariff and set initial rates. In AIC's case, this was Docket 12-0001. Expenses for the proceedings before the Commission in Docket 12-0001 were incurred in both 2011 and 2012. Per the statute, the expenses related to such initial proceeding are amortized over three years.

In Docket 12-0293, the Commission's Order noted AIC's explanation that "in 2011, it

incurred approximately $665,000 in connection with Docket No. 12-0001. AIC adds that it has (and will) further incur rate case expense in 2012 associated with Docket No. 12-0001 and the instant proceeding [12-0293]. Consistent with Section 16-108.5(c)(4)(E), AIC proposes to recover the total rate case expense for Docket No. 12-0001 (from both 2011 and 2012) over a single three-year period, beginning in 2012." *Ameren Ill. Co.*, Docket 12-0293, Order, p. 80. The Commission found that "Section 16-108.5(c)(4)(E) of the Act permits a participating utility, subject to a determination of prudence and reasonableness consistent with Commission practice and law, to recover expenses related to the approval of the participating utility's initial performance based formula rate, provided that the recovery shall be amortized over a three-year period" and agreed with use of the single three-year period, beginning in 2012. *Id.,* at 81. Thus, consistent with Section 16-108.5(c)(4)(E) and the Docket 12-0293 Order, AIC has included for recovery as rate case expense in this proceeding the amortized amount for Docket 12-0001 costs incurred in 2011 and 2012. The amortized amount is $462,000, as discussed below (ICC Staff Ex. 7.0, p. 25), and is reflected on AIC's FERC Form 1 for 2012.

The "expenses related to the annual Commission proceedings under subsection (d) of this Section to review the inputs to the performance-based formula rate" are the expenses related to the annual update/reconciliation proceeding. These "shall be expensed and recovered through the performance-based formula rate." 220 ILCS 5/16-108.5(c)(4)(E). These costs are not amortized (per the statute), but instead are recovered as they are included in FERC Form 1. In the current case, the costs that are expensed and should be recovered through the formula rate are the actual 2012 costs related to Docket 12-0293 (and reflected on FERC Form 1 for 2012). These actual 2012 costs are in the amount of $748,000, as discussed below (ICC Staff Ex. 7.0, p. 25)). The costs related to the current proceeding, Docket 13-0301, would be reviewed for

recovery in the next update/reconciliation proceeding that is based on actual costs in 2013.

b. Amount to Be Recovered in Rates

In his direct testimony, Staff witness Mr. Ostrander recommended disallowance of all rate case expense included in this proceeding for compensation to attorneys and experts in connection with the litigation of Dockets 12-0001 and 12-0293. (ICC Staff Ex. 2.0, pp. 17-18.) After AIC provided invoices and supporting documentation for the expenses, Mr. Ostrander concluded that the amounts, with the exception of the cost of SFIO services, were just and reasonable. (ICC Staff Ex. 7.0, p. 20.) Mr. Ostrander also recommended reclassifying some costs of Docket 12-0001 from miscellaneous distribution expense to rate case expense. (*See* Ameren Ex. 18.5, Sch. 1.)

AIC concurred with Mr. Ostrander's revised positions (*see* Appendix C, Schedule 1), and the parties recommend the Commission conclude as follows: "The Commission has considered the costs expended by the Company to compensate attorneys and technical experts to prepare and litigate this rate case proceeding and assesses that the amount included as rate case expense in the revenue requirement of $1.261 million is just and reasonable pursuant to Section 9-229 of the Act. 220 ILCS 5/9-229. This amount includes the following costs: $492,000 amortized rate case expense associated with the initial formula rate proceeding, Docket 12-0001 and $769,000 associated with Docket 12-0293." (Ameren Ex. 18.0 (2d Rev.), p. 42.)

5. Industry Dues Expense

Staff witness Ms. Pearce proposed an adjustment to reduce Industry Dues Expense by removing amounts paid to St. Louis Area Business Health Coalition (BHC) and Hunton & Williams LLP. (ICC Staff Ex. 3.0, pp. 7-9.) Ms. Pearce argued that these amounts were non-recoverable lobbying expenses. (*Id.*, p. 10.) AIC explained that less than 2% of the amount paid to BHC was used for lobbying and argued that it would therefore be inappropriate to disallow the

entire amount. (Ameren Ex. 9.0 (Rev.) (Stafford Reb.), pp. 19-20.) Ms. Pearce modified her adjustment to remove only the 1.26% of the total cost of BHC membership that was attributable to lobbying. (ICC Staff Ex. 8.0, p. 11.) AIC accepted this modified adjustment. (Ameren Ex. 18.0 (2d Rev.), p. 12.) AIC also accepted Ms. Pearce's adjustment to remove the amounts paid to Hunton & Williams, in order to simplify the contested issues in the case, although AIC continues to believe that the costs should be properly recovered in rates. (*Id.*)

6. Miscellaneous General Expense (Wells Fargo)

Staff witness Ms. Pearce initially proposed an adjustment to Miscellaneous General Expense that would remove amounts paid to Illinois Energy Association, Bank of New York Mellon and Wells Fargo Advisors. (ICC Staff Ex. 3.0, p. 9.) In her rebuttal testimony, Ms. Pearce withdrew the portion of her adjustment for Illinois Energy Association and Bank of New York Mellon. (ICC Staff Ex. 8.0, p. 12.) In order to narrow the scope of contested issues in this case, Staff agreed to withdraw the remaining portion of this adjustment, for fees paid to Wells Fargo advisors, in exchange for AIC's agreement to withdraw its request to recover non-rate case expenses paid to SFIO. (Ameren Cross Ex. 3.) Therefore, this issue is no longer contested.

7. Strategic International Group Expense (Account 909)

Staff witness Mr. Knepler and AG witness Mr. Brosch proposed similar adjustments to remove expenses for fees paid in 2012 to Strategic International Group (SIG). (ICC Staff Ex. 5.0, p. 6; AG Ex. 1.0C, pp. 41-42.) AIC considers these communications consulting expenses prudent and reasonable to reflect in rates, but accepted the adjustment to remove SIG expenses in order to narrow the disputed issues in this case. (Ameren Ex. 24.0 (Kennedy Sur.), pp. 3, 19-20.) This issue is no longer contested.

8. Account 588 – Miscellaneous Distribution Expense:

a. Economic Consulting Fees

Staff witness Ms. Ebrey proposed an adjustment to remove from Account 588 expenses paid to outside economic consultants Bates & White and the University of Illinois' Institute of Government and Public Affairs Regional Economic Applications Laboratory. (ICC Staff Ex. 1.0, p. 18.) Ms. Ebrey contended that AIC had not provided an explanation of the services, or how they were related to the provision of utility service. (*Id.*) AIC witness Mr. Ronald Pate explained the services provided by these consultants and described how the services relate to the provision of utility service. (Ameren Ex. 11.0 (Rev.) (Pate Reb.), pp. 15-17.) Based on this explanation, Ms. Ebrey withdrew her proposed adjustment. (ICC Staff Ex. 6.0, p. 9.) Thus, this issue is resolved.

b. Advertising Costs

Staff witness Ms. Ebrey also proposed an adjustment to remove from Account 588 amounts paid to AIC's outside communication agency in 2012 for time and expenses for projects designed to educate and inform customers about AIC's investments as a result of its participation in the Energy Infrastructure Modernization Act (EIMA). (ICC Staff Ex. 1.0, pp. 17-18.) In his rebuttal testimony, AIC witness Mr. Ronald Pate explained that these expenses and projects informed customers about how AIC would be investing ratepayer resources, and how the EIMA-related upgrades will result in improved service and more options. (Ameren Ex. 14.0 (Rev.) (Kennedy Reb.), pp. 8-9.) Ms. Ebrey withdrew her proposed adjustment. (ICC Staff Ex. 6.0, p. 9.) As such, this issue is no longer contested.

c. Individual Expenses

Staff witness Ms. Ebrey proposed an adjustment to remove from Account 588 the increase in Resource Type 80, Individual Expenses, on the basis that the increase had not been

sufficiently explained. (ICC Staff Ex. 1.0, p. 19.) In his rebuttal testimony, AIC witness Mr. Ronald Pate explained that a significant portion the increase in these expenses was a result of an increase in mileage and hotel expenses related to the training of new and existing employees. (Ameren Ex. 11.0 (Rev.) (Pate Reb.), pp. 19-21.) Ms. Ebrey withdrew her proposed adjustment. (ICC Staff Ex. 6.0, p. 9.) Therefore, this issue is resolved.

d. Purchases - Other (AIC Self-Disallowed Expense)

Staff witness Ms. Ebrey proposed an adjustment to remove certain costs included in the "Purchases – Other" account, on the basis that these costs are of types that were disallowed by the Commission in Docket 12-0293, are unnecessary for the provision of utility service, or do not provide benefits to ratepayers. (ICC Staff Ex. 6.0, pp. 11-12.) In response to a data request, AIC agreed that amounts for categories 5, 6, 9b, 10b, 10c and 10d should be removed from recovery in this case. (Ameren Ex. 18.0 (2d Rev.) (Stafford Sur.), p. 7.) Thus, AIC considers this issue to be resolved.

e. Purchases – Other (Reclassified Capital)

Staff witness Ms. Ebrey also removed several items from the "Purchases – Other" account, noting that these items had been reclassified as capital. (ICC Staff Ex. 6.0, Attach A, p. 2.) AIC accepted this adjustment and considers this issue resolved. (Ameren Exs. 18.5, Sch. 1, p. 1; 18.5 Sch. 2, p. 1.)

f. Purchases – Other (Reclassified Rate Case Expense)

In his rebuttal testimony, Staff witness Mr. Ostrander recommended that certain court reporting costs originally classified as Miscellaneous Distribution Expense be reclassified as Rate Case Expense. (ICC Staff Ex. 7.0, p. 27.) AIC agreed that the adjustment was appropriate (Ameren Ex. 18.0 (2d Rev.) (Stafford Sur.), p. 13), and therefore considers this issue uncontested.

g. Relocation Expense (AIC Self-Disallowed Expense)

Staff witness Ms. Ebrey proposed an adjustment to reduce the amount of relocation expense included in Account 588. (*See* ICC Staff Ex. 1.0, p. 17.) In reviewing the relocation expenses charged to Account 588, AIC determined that expenses related to two employees should not have been charged to AIC's electric operations in 2012, and that a certain portion of expenses related to a third employee should not have been charged to AIC's electric operations. (Ameren Ex. 11.0 (Rev.) (Pate Reb.), p. 12.) Ms. Ebrey agreed that removal of these costs was appropriate. (ICC Staff Ex. 6.0, p. 10.) In addition, AIC determined that certain payroll uploading amounts were associated with the self-disallowed relocation expense amounts (Ameren Ex. 19.0 (Rev.) (Pate Sur.), p. 7.) AIC removed these payroll-uploading costs. (*Id.*) Although other components of relocation expense remain contested, the parties are in agreement that AIC's self-disallowance of approximately $24,652 in relocation expenses was appropriate. (*Id.; see* Appendix C, Schedule 2.)

9. Miscellaneous Operating Revenues – Overheads and Miscellaneous

Staff witness Ms. Ebrey and AG witness Mr. Brosch proposed similar adjustments to use the electric transmission and distribution allocator to assign a portion of the Mutual Assistance/Overheads Billed to Other Parties to electric distribution. (AG Ex. 1.0, p. 4; ICC Staff Ex. 1.0, Sch. 1.12.) Ms. Ebrey and Mr. Brosch also proposed an adjustment to use the general plant allocator to assign a portion of the Miscellaneous Billings revenue to electric distribution. (*Id.*) These changes were based on AIC's responses to data requests, which indicated that the proposed allocation would be in lieu of a labor-intensive, detailed analysis of each transaction or group of transactions within the accounts. (Ameren Ex. 9.0 (Rev.) (Stafford Reb.), p. 6.) AIC agrees that the adjustments are appropriate, and considers this issue resolved. (*Id.*)

B. Contested Issues

1. Miscellaneous Operating Revenues – ARES

AIC received certain payments in 2012 from cell phone companies for decommissioned microwave frequencies that AIC vacated and sold to the cell phone companies. (Ameren Ex. 9.0 (Rev.) (Stafford Reb.), p. 38; AG Ex. 1.4, p. 4.) The microwave frequencies were previously used to transmit electric transmission data for SCADA. (Ameren Ex. 9.0 (Rev.), p. 38.) Therefore, the payments are transmission-related, and the related revenues in 2012 were allocated entirely to AIC's transmission function.

AG witness Mr. Michael Brosch proposed to revise AIC's treatment of these revenues so that the $1,285,000 amount is allocated between the Distribution and Transmission functions, using a 79.99% plant allocator. (AG Exs. 1.0, pp. 5, 7; 1.3.) On rebuttal, Mr. Brosch changed his allocator so that 92.06% of the revenues were allocated to distribution. (AG Ex. 3.0, p. 6.) He argues that AIC has not demonstrated that *none* of the microwave circuits were used in the Company's distribution operations, or that the revenue in question will actually be treated as FERC jurisdictional revenues.

Mr. Brosch's adjustment should be rejected. The record shows that the microwave frequencies at issue were needed to transmit *transmission* data for SCADA. (Ameren Ex. 9.0 (Rev.), p. 38; AG Ex. 1.4, p. 4.) And Mr. Brosch does not appear to dispute that the frequencies did transmit transmission data. Rather, Mr. Brosch's position seems to be that the majority of the revenues must be allocated to distribution service unless AIC can demonstrate that not a single one of the frequencies was used for distribution purposes. This is backwards. If, hypothetically, a single one of the frequencies was distribution, then some small portion of the revenues should be distribution—not 92% of them. AIC explained that it was not possible to associate the revenues with specific transmission assets. (AG Ex. 1.4, p. 5.) But that does not

render the microwave frequencies at issue in any way related to distribution service. The fact remains the frequencies were needed to transmit transmission data and so are properly considered transmission-related.

Mr. Brosch also appears to believe that any revenues not expressly addressed at FERC must then be reflected in distribution rates. But if the microwave frequencies were needed to transmit transmission data, they are FERC jurisdictional and must be addressed by FERC, not by the Commission. AIC intends to explore whether the appropriate revenues can be credited to ratepayers under the formula in the Company's next FERC jurisdictional filing. (Ameren Ex. 9.0 (Rev.), p. 39.)

Moreover, within the Commission's jurisdiction, not all revenues and expenses are included in the electric delivery service requirement. The purpose of this proceeding is to establish electric delivery service rates, not rates applicable to all Commission jurisdictional rates and charges. Mr. Brosch has not demonstrated that any of the revenues at issue are in fact related to delivery services—he just speculates they might be. (Ameren Ex. 18.0 (2d Rev.) (Stafford Sur.), p. 60.) Furthermore, Mr. Brosch has made no calculation that supports cost recovery of Commission jurisdictional expenses and rate base investment associated with these microwave circuits. (*Id.*) If in fact Mr. Brosch was right that the microwave circuits were distribution-related, there would be potential costs and investment associated with them in 2012 that should be reflected in delivery service rates. But Mr. Brosch has made no such companion calculation.

Finally, AIC points out that on rebuttal, Mr. Brosch has applied a labor allocator (92.06%) to revenues that are not labor-related and that do not apply to the electric distribution business. He does not explain why he changed his allocator from the 79.99% plant allocator he

proposed on direct. The main effect of the change, however, is to increase the amount of revenue allocated to distribution.

The evidence supports the Company's proposal to allocate these revenues 100% to transmission. Mr. Brosch's adjustment should be rejected.

2. Relocation Expense – Loss on Sale and Payroll Uploading (Account 588)

AIC regularly incurs relocation expenses in support of electric delivery service. (Ameren Exs. 11.0 (Rev.) (Pate Reb.), pp. 7-13; 19.0 (Rev.) (Pate Sur.), pp. 3-7.) These are charges (and related credits) for reimbursement benefits provided to eligible new hires or internal transfers. In 2012, AIC charged roughly $567,000 in relocation expense to Account 588, a miscellaneous electric distribution account. (Ameren Ex. 11.1.) Staff does not contest AIC's ability to recover this type of expense in general. Nor does Staff contest the bulk of the 2012 relocation expenses charged to Account 588. Staff seeks to remove only a portion, approximately $68,000, from the revenue requirement. AIC has removed part of this amount (approximately $25,000) because the costs should have been charged to AIC's gas operations. The remaining costs at issue ($43,000) are amounts paid for a "loss on sale" benefit—compensation provided to eligible new hires or internal transfers if they have to sell (or believe they will have to sell) their residences for less than the initial purchase price to accept or remain at the position offered. Staff questions whether it is reasonable for ratepayers to cover the loss on property sales. As explained below, however, the record shows inclusion of a "loss on sale" provision in the overall package of relocation benefits offered by AIC is a prudent expense intended to assist with the recruitment and retaining of skilled, experienced employees. The conditions and limitations on the amount paid for "loss on sale" ensure the reimbursement remains reasonable in amount. The Commission should reject Staff's adjustment and allow rate recovery of these expenses.

Relocation expenses are ordinary and recurring expenses AIC incurs in support of electric delivery service. (Ameren Ex. 11.0 (Rev.), p. 7.) These expenses fluctuate annually depending on the number of new hires and internal transfers and their respective eligibility for relocation benefits. (*Id*., pp. 7, 9.) The relocation expense for an individual employee also varies. The experience or "tier" level of the employee impacts the overall amount of the reimbursement; relocation expenses on average are higher for the "Experienced Professional" tier than the "New Professional" tier, for example. (*Id*., pp. 7-8.) The expense for the sale of a home is impacted by the cost of living for the specific geographical region and the size of the residence. (*Id*., p. 8.)

Ameren Corporation (Ameren) policies set forth criteria and conditions that determine the eligibility of an employee for relocation benefits. (*Id*., p. 7.) These policies also provide limitations on the amount that can be reimbursed. (*Id*.) Ameren routinely compares its benefits against programs offered by other large, local employers and utility peers. (*Id*.) This provides a reasonableness check for Ameren's programs. But it also allows Ameren to assess what the market may be offering. Most large employers provide relocation benefits similar to the benefits provided by Ameren's plans. (*Id*., p. 8.) Reimbursement of relocation expenses thus becomes a necessary investment to recruit and retain experienced and skilled employees. (*Id*., pp. 7-8.)

The Account 588 relocation expense in 2012 can be attributed to AIC employees hired or transferred to perform necessary electric distribution work. (*Id*., p. 9.) Ameren Exhibit 11.1 identifies the titles of the positions filled by employees eligible to receive relocation expenses and the utility work that was the primary driver for the open position. This exhibit also identifies the relocation "tier" for each employee and the amount of reimbursement received, based on the applicable reimbursement program and the employee's specific situation. The rebuttal testimony of AIC witness Mr. Ronald Pate further explains the need for the additional internal labor

resources to perform the incremental distribution work planned for 2012. (*Id*., pp. 10-11.)

Staff generally agrees expense incurred to relocate a new hire or internal transfer is recoverable in rates, provided the expense was prudently incurred and reasonable in amount. (*Id*., p. 8.) Staff, however, takes issue with recovery of the portion of the relocation expense that constitutes a reimbursement to eligible employees for a "loss on sale" of their residences. (ICC Staff Ex. 6.0, p. 10.) Staff doesn't take issue with the prudence of the provision in AIC's policies, or with AIC providing the benefit as part of the employee's reimbursement. Staff simply claims, "Ratepayers should not be forced to cover the risk that a relocating [AIC] employee does not recoup their initial home investment, even if AIC is willing to do so." (*Id*., p. 10:191-93.) Staff's stated concern, however, is not an adequate basis upon which the Commission can exclude an actual expense from recovery under formula rates. The standard is whether the expense is prudently incurred, reasonable in amount, and related to electric delivery service.

The record demonstrates the prudent nature of the specific relocation "loss on sale" benefit. The primary goal of the "loss on sale" benefit is to ensure that experienced and skilled employees, who are needed in specific Ameren locations, do not decline the opportunity—or leave AIC after accepting an offer—solely because they would have to take a loss on the sale of their homes in order to do so. (Ameren Ex. 19.0 (Rev.), p. 5.) Housing values in the Midwest, for instance, experienced a 10% decline, on average, in the last recession through no fault of the homeowners. (*Id*.) The "loss on sale" provision is designed to help employees cover the overall decline in home values across the Midwest, to the extent the provision applies to their specific situation. (*Id*.) Not providing a "loss on sale" benefit would have caused hardship to the employees who relocated in 2012, and as a result, their likelihood of accepting the respective

role would certainly decrease, potentially to the point of not being able to accept the roles. (*Id*., pp. 5-6.) In addition, due to the payback provisions, in the event of termination or departure, this benefit acts as a retention feature to incentivize the employee to remain in his or her position with AIC. (*Id*., p. 6.)

The record also demonstrates the "loss on sale" expenses charged to Account 588 were reasonable in amount. "Loss on sale" expenses are only paid if the eligible new hire or transfer sells his or her home for less than the initial purchase price. (*Id*., p. 4.) Staff's disallowance removes the "loss on sale" expense (and related payroll taxes) for three "Experienced Professionals" who received the reimbursement benefit in 2012. (*Id*.) For "Experienced Professionals," the "loss on sale" benefit is limited to 10% of the original purchase price up to a maximum of $25,000, with the relocated employee contributing the first $1,000. (*Id*., p. 5.) For example, if a home is initially purchased for $100,000 and the relocated employee sells the home for $95,000, the employee covers the first $1,000 of the loss and Ameren pays the remaining $4,000. (*Id*.) Ameren would not pay a "loss on sale" benefit, however, if the relocated employee initially purchases the home for $100,000, refinances the home for $120,000 because of property value appreciation (taking the equity out of the property) and later sells the home for $105,000. (*Id*.) In addition, capital improvements that increase the value of the property (*i.e.*, additions and renovations to the home) are not considered in the final "loss on sale" calculation. (*Id.*)

Staff believes "it is not reasonable for ratepayers to cover the loss on property sales, given the already generous relocation reimbursements provided." (ICC Staff Ex. 6.0, p. 10:187-89.) The reimbursements provided to the three AIC employees in question, however, were consistent with the amounts paid to AIC employees in the "Experienced Professional" tier, who on average receive a reimbursement between $50,000 to $60,000. (Ameren Ex. 11.0 (Rev.), p.

8.) Staff also hasn't disputed the necessity of the open positions that these three employees filled in 2012. Employee No. 5, who filled the position of "Engineer" with the primary workforce driver of the Liberty Audit, received a "loss on sale" benefit of $4,000. (Ameren Ex. 19.0 (Rev.), p. 4.) Employee No. 14, who filled the position of "Supv Bus Adm & CS" with the primary workforce driver of attrition, received a "loss on sale" benefit of $21,500. (*Id*.) Employee No. 17, who filled the position of "Career Engineer" with the primary workforce driver of the Modernization Action Plan (MAP), received a "loss on sale" benefit of $14,000. (*Id*.) Again, the limitations for the "Experienced Professionals" tier ensured the amounts paid under this provision to these employees were reasonable and in line with historical averages. The record also demonstrates the "loss on sale" amounts AIC seeks to recover relate to electric delivery service, now that AIC has removed the portions (and related payroll taxes) that should have been charged to gas operations. (Ameren Exs. 11.0 (Rev.), p. 12; 19.0 (Rev.), pp. 6-7.)

Staff has not identified any prior Commission order in testimony in support of Staff's adjustment to remove the relocation expense associated with the "loss on sale" reimbursement. The record does not support the Commission making this adjustment for the first time in this proceeding. (*Id*., p. 9.) The amounts Staff seeks to exclude (apart from the gas amounts AIC already removed) are actual electric delivery services costs incurred in 2012. They are prudently incurred expenses that support the recruitment and retention of skilled, experienced employees. And they are expenses that are reasonable in amount, considering the limitations on the amount of "loss on sale" reimbursement and the average historical reimbursement for "Experienced Professionals." The Commission should allow recovery of "loss on sale" relocation expenses.

3. Purchases – Other (Account 588)

Staff proposes to remove costs for a laundry list of employee "Purchases" made in 2012 and charged to Account 588 (electric). AIC has agreed to remove the costs for some purchases;

other amounts AIC has agreed to reclassify. These adjustments are discussed in Sections III.A.8.d-f *supra*. The remainder of Staff's adjustment, however, AIC opposes. To support recovery of these remaining costs, AIC has included in the record Ameren Exhibit 19.1. This exhibit contains the description of the vendor and amount, the description of the item purchased, the type of expense, and most importantly, the work-related explanation or business justification for each purchase. AIC also has included the testimony of AIC witness Mr. Ronald Pate, Vice-President of Operations and Technical Services. This testimony further explains the context, underlying rationales and ratepayer benefits of the purchases. (Ameren Ex. 19.0 (Rev.) (Pate Sur.), pp. 7-25.) Taken together, the substantial weight of the evidence in the record—the information on the specific charges and the sworn testimony of one of AIC's senior leaders—demonstrates the purchases are reasonable in amount, prudently incurred and supportive of electric delivery service. From the employee achievement awards to the electrical equipment, the costs for these purchases should be recoverable in rates. The Commission should not adopt Staff's adjustment.

In AIC's prior formula rate proceeding, the Commission examined whether certain corporate credit card transactions in Account 909 (electric) in 2011 were "legitimate and reasonable business expenses." *Ameren Ill. Co.*, Docket 12-0293, Order, p. 67. The Commission declined to adopt Staff's "generic" threshold for disallowance, since it lacked the "specificity" to determine which expenses were recoverable. *Id*. "[A]s a general matter the Commission [was] reluctant to disallow costs in the absence of specific concerns with particular expenses." *Id*. The Commission on its own accord, however, found "specific" corporate credit card purchases "questionable" "because the expenses at some retailers [were] arguably excessive and/or not reasonably related to the provisioning of delivery services." *Id*. "In the absence of

better support for these charges," the Commission found recovery from delivery service customers of the cost for 34 different charges was "unreasonable."[4] *Id*.

The Commission's findings in Docket 12-0293 frame the debate for reviewing employee purchases in this docket. First, a disallowance must be grounded in a specific objection to a particular expense. The adjustment can't just be a general disallowance. The Commission made a similar finding in AIC's first formula rate case, when it found "the Commission is not comfortable accepting a general adjustment to a category of costs. In the absence of specific reasons behind objections to an expense, the Commission questions whether it can know if a disallowance is indeed warranted." *Ameren Ill. Co.*, Docket 12-0001, Order, p. 92 (declining to adopt Staff's general disallowance not tied to specific invoices and particular advertising expenses). Second, an expense that is reasonable in amount (*i.e.*, not excessive) and "reasonably related to the provisioning of delivery service" is recoverable.[5] This is similar to the standard of review for recovery of costs in formula rates: Section 16-108.5(c)(1) requires AIC's formula rates to "[p]rovide for the recovery of the utility's *actual costs of delivery services* that are *prudently incurred* and *reasonable in amount* consistent with Commission practice and law." 220 ILCS 5/16-108.5(c)(1) (emphasis added). Third, if "better support" is provided in a future docket for the same type of charge previously disallowed, the Commission may find the cost of that purchase recoverable. *See Ameren Ill. Co.*, Docket 12-0293, Order, p. 67. In other words, the Commission should not disallow a corporate credit card expense for a vendor in this

[4] The Commission also required AIC to file "its internal controls on [corporate credit card] usage" within 45 days of the entry of the final order in Docket 12-0293. *Ameren Ill. Co.*, Docket 12-0293, Order, p. 69. AIC's filing was required to take the form of a petition with supporting testimony on the processes, limitations and standards for the usage of corporate credit cards and the review and reporting of corporate credit card transactions. *Id*. AIC submitted that filing on January 18, 2013 (Docket 13-0075). At this point in time, after a series of extensions, Staff's direct testimony is due to be filed on October 31, 2013.

[5] In Docket 12-0293, the Commission reviewed Account 909 corporate credit card expenses under Section 9-225 of the Act. *Ameren Ill. Co.*, Docket 12-0293, Order, pp. 62-63, 67. That section of the Act, however, only applies to "advertising" expenses.

proceeding just because a similar charge was disallowed in Docket 12-0293. The work-related justification and the context for the specific purchase must be weighed, based on the facts presented in the record in this case.

In direct testimony, AIC identified the items that caused expense in Account 588, Miscellaneous Distribution Expense, to increase in 2012. (Ameren Ex. 11.0 (Rev.) (Pate Reb.), pp. 2-3.) In response to AG data request 2.07, AIC further elaborated on the causes of the increase in Account 588 expense and provided an initial breakdown of monthly charges to Account 588 by Resource Type and Resource Management Center (RMC), the organizational unit responsible for the resources or work involved with the charge. (*Id*., p. 5; ICC Staff Ex. 1.0, Attach. C (AG 2.07).) In subsequent discovery requests, TEE 7.06 and TEE 11.02, AIC provided detail on individual transactions for the Resource Type BX "Purchases – Other." (ICC Staff Ex. 6.0, p. 11.) The detail amounted to over 38,000 lines of transactions. (Tr. 358.) From that detail, Staff sent further discovery (TEE 16 series) on selected entries. (ICC Staff Ex. 6.0, p. 12.) Some amounts AIC agreed to self-disallow or reclassify. (*Id*.) For other amounts, Staff agreed AIC's explanation was reasonable. (*Id*.) The remaining entries that Staff believed should not be recoverable in rates were identified in Staff's rebuttal filing in Attachment A to ICC Staff Exhibit 6.0. (*Id*.)

Although Staff has identified the specific purchases it finds objectionable, its testimony and exhibits are less clear on the reasons for the individual disallowances and the standard for recovery AIC must meet. Staff's jumbled mix of rationales muddles the basis for its adjustment. For example, Staff argues the disallowed amounts are "charges of the types disallowed by the Commission in its order in Docket No. 12-0293, unnecessary for the provision of utility service, do not provide benefits to ratepayers, and/or primarily benefit AIC employees as a perquisite."

(ICC Staff Ex. 6.0, p. 11:215-18.) No citations to prior Commission orders, Illinois statutes or ICC administrative rules, however, are provided to support Staff's "unnecessary," ratepayer "benefit," and employee "perquisite" standards. In truth, Staff's testimony misses the mark entirely on the applicable standards; the inquiry should concern whether the expense is prudent, reasonable in amount and related to delivery service. But even if Staff had pegged the proper standards, its testimony provides little analysis of the source and application of the standards; with the exception of a few items, there is no detailed discussion about how any of the individual expenses do not meet Staff's standards or why those standards should even govern cost recovery.

Staff also claims the Commission disallowed a number of expense items in Docket 12-0293 "that are identical or very similar" to items Staff proposes to disallow in this proceeding. (ICC Staff Ex. 6.0, p. 12:238-40.) Absent again from the record is application of Staff's standard and any sort of explanation why a specific expense identified in this docket should be disallowed because an "identical or very similar" expense was previously disallowed. The items Staff identifies—corporate store purchases, floral arrangements, engraving costs, branded clothing, and cable service—are not items that should be automatically disallowed in each case. The only other comments provided are given in the explanation column in Attachment A. These nominal explanations—the most often repeated being "safety perqs," "12-0293," "unidentified," and "perqs"—further demonstrate the perfunctory nature of Staff's adjustment. Whatever standard is used to evaluate corporate credit card purchases must consider the work-related justification for each expense. This doesn't mean AIC is collaterally attacking the prior Commission order; it just means AIC believes it has provided "better support" for the individual expenses in this case. *See Ameren Ill. Co.*, Docket 12-0293, Order, p. 67.

The "better support" in this instance can be found in the surrebuttal testimony and exhibit

of AIC witness Mr. Ronald Pate. (Ameren Exs. 19.0 (Rev.); 19.1.) Ameren Exhibit 19.1 identifies the types of purchases Staff seeks to disallow from Account 588 expense. They include:

- Utility Equipment – These are electrical items listed in Staff's categories 11 and 14 that do not meet the criteria for capitalization. (Ameren Ex. 19.1:125-30, 132-36, 174-74.) These items total $6,908.23 and include wireless headsets, cell phone signal boosters, GPS, digital camera and televisions.

- Storm Response & Preparedness – These are charges listed in Staff's category 7 for satellite and cable television service for AIC operating centers. (*Id*. at lines 78-103.) These items total $1,232.46. An additional storm-related charge listed in Staff category 9c is the expense to install a driveway for an outlying troubleman. (*Id*. at line 108.) This charge was for $3,233.88.

- Office Supplies – These are minor work-related purchases listed in multiple Staff categories. (*Id*. at lines 10-11, 16, 20-21, 186.) These items total $360.68. Included in this category is also a miscellaneous $200 charge for fees for a course an employee was required to take to maintain his CDL license that AIC agreed to reimburse after it was determined the course was mistakenly required. (*Id*. at line 104.)

- Safety Fairs/Training/Education – These are charges mainly listed in Staff category 2 related to safety training and safety exercises for AIC employees and/or third-party contractors. (*Id*. at lines 18-19, 27-39, 41, 77.) These items total $9,862.31. Included in this category are also two charges for vehicle safety stickers totaling $308.72. (*Id*. at lines 105-06.) In addition, this category included a charge for safety fair giveaways for $863.98. (*Id*. at line 131.)

- Safety Recognition – Meal – These include two charges listed in Staff category 2 for breakfast or lunches provided at division-wide employee safety meetings. (*Id*. at lines 25-26.) These items total $2,532.61. Included in this category are also two charges listed in Staff category 2 for dinners provided to employees in recognition of safety records. (*Id*. at lines 15-17.) These items total $1,114.64.

- Safety Achievement Award – Tangible Property – These are purchases for tangible personal property awarded to employees during the year for achievements in safety performance and safety records. (*Id*. at lines 1-9, 12-14, 43-44, 137-40, 141-72, 175-85, 187-278.) These items total $20,632.22.

- Employee Appreciation – Recognition – Included in this category are purchases listed in Staff categories 2 and 4 for tangible items, including plaques, to show appreciation for the length of employee's tenure or recognition for completing an apprentice program. (*Id*. at lines 22-24, 40, 42, 67-69.) These items total $615.30.

- Employee Appreciation – Family Death or Sickness: These are flower purchases listed in Staff category 3 for the families of employees who had suffered an illness or death in the family (including the death of the employee). (*Id*. at lines 45-66.) These items total $1,254.49.

- Sponsorships – Included in Account 588 were a few miscellaneous sponsorships, some of which AIC self-disallowed as tangible benefits received. The three items for which AIC still seeks recovery total $1,853.16. (*Id*. at lines 70, 74, 124.)

The work-related justification that supports the recovery of these items is provided in Ameren Exhibit 19.1. The surrebuttal testimony of Mr. Pate (Ameren Ex. 19.0 (Rev.)) further augments the record in support of charges for cable and satellite television (pp. 15-16), Ameren store purchases (pp. 16-17), floral arrangements (pp. 18-19), electronic equipment (pp. 21, 23), the installation of the troubleman's driveway (pp. 23-24), and safety-related purchases (pp. 22, 24-26). In addition, the surrebuttal testimony of Mr. Kennedy addresses the Account 588 sponsorship costs AIC still seeks to recover. (Ameren Ex. 24.0 (Kennedy Sur.), pp. 16-18.)

Controls and procedures exist to ensure AIC's purchases, including the benefits provided to incentivize, recognize and engage employees, are prudent, reasonable in amount and related to delivery service. (Ameren Ex. 19.0 (Rev.), pp. 19-20.) The principal checks are the constraints that exist in the policies that govern the use and reporting of corporate credit card expenses. (*Id*., p. 20.) The employee making the purchase must provide a work-related justification and supporting documentation and obtain supervisor approval for *any* corporate card purchase. (*Id*.) Whether the purchase is an Ameren "logo-wear" shirt for a public event, a cake in honor of the retirement of a colleague, a bouquet of flowers for an ill or deceased employee, or just a box of donuts for a quarterly safety meeting, the cardholder knows his or her supervisor must approve the purchase (if verbal or e-mail approval was not already requested and provided). (*Id*.) These constraints ensure transparency concerning the business purpose for the purchase and encourage dialogue between the supervisor and cardholder concerning the appropriateness of the purchase

and the amount spent. (*Id*.) In addition, each department and division has to operate within the constraints of operating budgets and the guidance provided on taxable and non-taxable employee fringe benefits. (*Id*.) Directors cannot purchase safety awards, cakes, flowers and donuts on a daily basis without running afoul of tax laws and reducing their own operating budgets.

In the limited instances where Staff raised a concern over the need for a specific expense, the evidence in the record addressed and resolved that concern. For example, Staff's rebuttal questions the need for electronic utility equipment and believes a "further explanation" is needed. (ICC Staff Ex. 6.0, p. 14:277.) Mr. Pate's surrebuttal and Ameren Exhibit 19.1 (lines 125-36) provide the business justification for the televisions, digital cameras, GPS and cell phone signal boosters Staff seeks to disallow. (Ameren Ex. 19.0 (Rev.), p. 21.) These items are used to increase connectivity and productivity at remote substations (cell phone boosters and GPS), take pictures of faulty equipment in the field (digital cameras), and broadcast emergency response activities, training materials, weather and news information and employee communications (televisions). (*Id*.) Mr. Pate's surrebuttal testimony also provides clarity to Staff's concern for the need for hands-free wireless headsets at AIC's AMI operating center; these headsets increase the productivity of employees sitting in cubicles in close proximity, allowing them to multi-task and eliminate distracting background noise. (ICC Staff Ex. 6.0, p. 15; Ameren Ex. 19.0 (Rev.), p. 23.) And Mr. Pate's surrebuttal explained why installation of a gravel driveway allowed a troubleman to safely park a 41-foot, 26,000-pound bucket truck at his residence, thereby reducing his response time to outages and AIC's cost of service *without* adding any value to the employee's property. (ICC Staff Ex. 6.0, p. 14; Ameren Ex. 19.0 (Rev.), pp. 23-24.) Staff's stated concerns do not outweigh the evidence AIC submitted or otherwise justify removal of expenses.

The evidence AIC submitted in this docket also addresses Staff's token disallowances for "identical" or "very similar" items disallowed in AIC's last formula rate case. (ICC Staff Ex. 6.0, p. 12:239.) For example, in Docket 12-0293, the Commission removed charges for Dish Network service based on the theory AIC did not need cable or satellite television service at its office and operating centers, given the weather and news information available on the Internet. *Ameren Ill. Co.*, Docket 12-0293, Order, pp. 67-68. As explained in Mr. Pate's surrebuttal, cable or satellite television service provides AIC with reliable, real-time information on local news stories and extreme weather events in—or coming towards—AIC's service territory. (Ameren Ex. 19.0 (Rev.), p. 15.) It is not uncommon for AIC's storm response centers to have televisions constantly tuned into local news and weather coverage, while personnel *also* monitor computer and Internet data. (*Id*., pp. 15-16.) It is also not uncommon for AIC employees (including employees without access to computers at a specified location) to congregate and access storm information through televisions in operating center common areas. (*Id*.) That some news and weather information may also be available on the Internet does not make the use of cable TV as another tool to access the information an unreasonable practice. (*Id*.) This is no different than the continued use of landline telephones and pencils. Cell phones and computers do not make them obsolete. (*Id*.) Given the "better support," the Commission should decline to adopt disallowances for cable and satellite television service in this docket. *See Ameren Ill. Co.*, Docket 12-0293, Order, p. 67.

The Commission should also decline to adopt Staff's "similar" disallowances for flower purchases. (ICC Staff Ex. 6.0, p. 12:239.) In Docket 12-0293, the Commission did not believe the expense for flowers for "booth decorations" at community outreach events was a recoverable advertising expense. *Ameren Ill. Co.*, Docket 12-0293, Order, p. 68. The flower purchases Staff

seeks to disallow in this proceeding, however, are not "identical" or even "very similar." Again, the context and business justification of the purchase, and not just the description of the item or the identity of the vendor, is critical to determining whether the expense is recoverable; otherwise, without evidence of the intended or actual use of the purchase, there can be no credible, defensible basis for the disallowance. In this instance, all floral arrangements Staff seeks to disallow were purchases, made in the utility's name, to honor a death in an employee's family (often times the employee) or wish an employee a speedy recovery from an illness. (Ameren Ex. 19.1.) Staff calls these "thoughtful gestures," and they are. (ICC Staff Ex. 6.0, p. 14:261-62.) They are "thoughtful gestures" by an employer to the employee, provided to the employee in the context of his or her employment with AIC. (Ameren Ex. 19.0 (Rev.), p. 18.) They are ordinary expenses incurred by every employer—and every public utility—that is concerned about the general health, safety and well being of its workforce and their families. (*Id*.) Staff may not believe they are "necessary for the provision of utility service." (ICC Staff Ex. 6.0, p. 14:262.) But the appreciation showed employees by these gestures gains their respect and engagement; that is important to a productive workplace, no matter who the employer is.

Lastly, Staff seeks to disallow an array of what it calls "safety perqs," claiming the costs are "added perqs for employees to perform their jobs in a safe manner." (ICC Staff Ex. 6.0, p. 13:251-52, Attach. A.) These purchases range from giveaways at educational events on safe digging practices, to prizes at statewide safety meetings or mandatory employee training exercises, to employee meals at division-sponsored safety events, to safety awards for individual employees in recognition of outstanding achievements in performance or zero recordable incidents on safety records. (Ameren Ex. 19.0 (Rev.), pp. 22, 24-26.) AIC is committed to build and maintain a culture of safety in the workplace and in the field. (*Id*., p. 24.) As part of its

overall commitment to safety, AIC has worked to reduce and limit preventable, recordable injuries, preventable vehicular accidents and safe work practices violations. (*Id*.) Preventable injuries, accidents and safety violations increase AIC's cost of service, from lost time and wages for injuries to utility workers, liability for injuries, damage to utility and non-utility property, to fines and disciplinary actions. (*Id*.) The goal for any employee, department or division is to have zero recordable incidents. (*Id*., pp. 24-25.) To encourage employees to reach individual goals and limit the number of preventable incidents, utility-sponsored programs incentivize, recognize and reward employees for their safety record and performance during the prior calendar year. (*Id*., p. 25.) The allotted funding for AIC's safety programs is used for quarterly department or division lunches or breakfasts, group training exercises, safety banquets and fairs, and individual awards of lesser value such as gift cards or tangible, personal property. (*Id*.)

These expenses are not "safety perqs." These are, for the most part, achievement awards, whether given for the employee's length of service, exceptional performance, or duration of time he or she avoided a preventable accident. (*Id*.) The costs of safety achievement awards and other safety meals and training exercises are justified and more than offset by the avoided costs from the reduction in unsafe actions that cause damage to utility equipment, customers' property, and loss of life. (*Id*.) Staff recognizes Section 16-108.5(c)(4)(A) allows recovery in formula rates of incentive compensation costs related to safety. (ICC Staff Ex. 6.0, p. 13.) These costs are no different. They are just another means by which AIC encourages employees to improve safety. The practice of recognizing and rewarding employee safety and performance is prudent. The purpose of the programs is to improve the reliability, adequacy and safety of the delivery services AIC provides. The amounts for these purchases should be recovered in formula rates.

4. Other Credit Card Expenses

In addition to Staff's adjustment to remove costs for Account 588 purchases, Staff proposes a separate adjustment to disallow approximately $24,000 of employee credit card charges from the revenue requirement. (ICC Staff Ex. 8.0, Sch. 8.04.)[6] This disallowance is improper because AIC has demonstrated each of these charges is prudent, reasonable in amount and reasonably related to the provision of electric delivery service. In AIC's last electric formula rate update proceeding, the Commission found that utility employees' corporate credit card charges should not be excessive and should be reasonably related to the provision of delivery services. *Ameren Ill. Co.*, Docket 12-0293, Order, p. 67. The Commission allowed some charges "conceivably related" to delivery service, while disallowing other charges absent "better support." *Id.* In this proceeding, AIC has provided the "better support" for all of the charges Staff seeks to disallow by providing the work-related justification for each disputed credit card charge and the context that shows the purchases are reasonable and prudent.

As AIC witness Ms. Jacqueline Voiles explained in her rebuttal and surrebuttal testimony, each disputed corporate credit card expense is reasonable in amount, has been prudently incurred and serves a legitimate utility purpose. (Ameren Exs. 16.0 (Voiles Reb.); pp. 2-18; 16.1; 26.0 (Voiles Sur.), pp. 2-15.) As the evidence in the record shows, the disputed credit card charges were made to purchase a variety of work-related items. There are charges for items that related to AIC's efforts to respond to storms and outages. There are charges AIC made for routine utility equipment. There are charges for employee snacks and meals at safety meetings. There are charges for other business-related meals and travel. And there are charges

[6] Staff has indicated it will be reflecting revisions to ICC Staff Exhibit 8.0, Schedule 8.04, in the appendix to Staff's Initial Brief to reflect four items also disallowed in ICC Staff Exhibit 6.0, Schedule 6.11. (Tr. 280.) In addition, AIC anticipates Staff reflecting AIC's self-disallowances reflected in AIC's surrebuttal schedules in Staff's adjustment for Account 588 Purchases.

that support employee engagement, recruitment, retention and morale. Ameren Exhibit 16.1 provides the business justification for each disputed expense. Staff, in its testimony, has not challenged any of the business justifications. The disagreement between the parties boils down to whether these acknowledged work-related operating expenses should be recovered in formula rates. AIC believes they should.

AIC does not bear the burden of demonstrating a quantifiable ratepayer benefit, as Staff suggests, as discussed *infra*. But the weight of the evidence actually demonstrates each business charge does, in fact, provide a ratepayer benefit related to the provision of delivery service. The Storm Response and Preparedness charges benefit customers by ensuring AIC's employees and equipment meet customer expectations in the event of storm outages. (Ameren Ex. 16.0, p. 10; Tr. 80.) Other Utility Equipment charges enable employees to efficiently serve customers in an ever increasingly high-tech digital world. (Ameren Ex. 16.0, p. 10.) Food and Beverage charges incurred in the context of Safety meetings relate to education and training intended to reduce employee injuries and property damage claims, and therefore lower ratepayer costs. (*Id*., p. 11; Tr. 79.) Employee appreciation charges increase retention rates and morale leading to a more knowledgeable, dedicated workforce. (Ameren Ex. 16.0, pp. 12-13; Tr. 77.) That employees may have received some minimal benefits—the types of "fringe benefits" commonly provided employees by employers—from certain disputed expenses does not negate the ratepayer benefits.

While Staff has failed to address the adequacy or inadequacy of any of AIC's business justifications or the resulting ratepayer benefits, they have instead focused on whether these disputed charges are "of the types" or "similar to those" disallowed in Docket 12-0293. (ICC Staff Exs. 3.0, p. 12; 8.0, p. 15.) For example, since certain charges for flowers and satellite television service were disallowed in Docket 12-0293, Staff concludes flower charges should be

disallowed in this proceeding. There are several problems with Staff's approach. First, it misrepresents the Account 909 "advertising" credit card charges the Commission disallowed in Docket 12-0293. *Nowhere* on the Commission's listed of disallowed charges on pages 67-68 of the December 5, 2012 Order does there appear a *single* charge for electrical utility equipment. Yet, Staff's disallowed expenses in this proceeding include *18 different* pieces of storm response and other utility equipment. (Ameren Ex. 16.1:5-6, 9-10, 15-28.) Another example of the obvious disconnect between Staff's adjustment and the order in Docket 12-0293 is the list of food and beverage charges Staff seeks to disallow. In Docket 12-0293, the Commission identified *one* meal charge (Peoria Gridiron Dinner) that it did not consider a "legitimate advertising expense." *Ameren Ill. Co.*, Docket 12-0293, Order, p. 68. But Staff in this docket seeks to disallow *44 different* food and beverage charges. (Ameren Ex. 16.1:1-2, 7-8, 30-58, 62-67, 72-74, 76-77, 78-79.) Staff even throws in a hotel room used for a mock storm logistics drill for good measure, even though the Commission did not disallow *any* travel expenses in Docket 12-0293. Indeed, the majority of the advertising expenses disallowed in Docket 12-0293 were clothing purchases. Of the 34 charges disallowed in Docket 12-0293, totaling $10,266.09, purchases at clothing retailers accounted for 14 charges or $8,487.62 that the Commission deemed unreasonable. *Ameren Ill. Co.*, Docket 12-0293, Order, pp. 67-68. These charges amounted to 83% of the Commission's disallowance in that case. Staff witness Ms. Pearce's list of disputed charges in the current proceeding, however, only identifies *one* clothing purchase—a $181.66 charge for fire-retardant clothing. (Ameren Ex. 16.1:85; Tr. 81.) To argue the charges listed on Ameren Exhibit 16.1 are "similar" or "of the types" disallowed in Docket 12-0293 is disingenuous.

The larger problem, however, with Staff's approach is that it largely fails to consider the

evidence provided *in this proceeding*, namely the business-related justifications and the ratepayer benefits for each disallowed charge. In Docket 12-0293, each charge was disallowed not because it was of a certain "type," but because the Commission did not consider it a recoverable expense based on the record. For example, flower purchases were disallowed in Docket 12-0293 because decorating an informational booth was not in the Commission's opinion a recoverable expense based on the evidence presented, not because flowers may never be an appropriate expense and should be categorically excluded from rates. *Ameren Ill. Co.*, Docket 12-0293, Order, p. 68. In this case, none of the flower purchases were for informational booths. Similarly, the Commission disallowed one charge for satellite television service in Docket 12-0293, based on its opinion the service was redundant in light of information available on the Internet. But in this proceeding, the testimony of AIC witnesses Mr. Pate and Ms. Voiles have presented "better support" for the recovery of satellite and cable television service. The context of the purchase must be considered in order to determine whether the purchase is reasonable in amount, prudently incurred and related to delivery service. Staff's analysis fails to do this.

Pressed for an individualized reason for the disallowance of each expense, Staff has created (at least) five rationales for disallowance. Without explaining the application of its criteria or the judgment used, Staff's schedule lists each expense and checks off one or more of the rationales for disallowance. (ICC Staff Ex. 8.0, Attach. A, pp. 34-36.) The standards applied include: "based on Docket 12-0293," "Arguably Excessive" and "Unnecessary for Delivery Service." (*Id.*) The other three standards are Staff's "Threefold Rationale": "Unnecessary for Provision of Utility Service," "Does Not Provide Benefits to Ratepayers" and "Benefit AIC Employees as a Perquisite," without any citation to prior Commission orders or statutory provisions. (*Id.*)

As for the first rationale "Arguably Excessive," which has been checked off for almost all of the disallowed expenses, Staff does not explain *why* it believes AIC paid an excessive amount for any of the challenged charges. The only insight into Staff's analysis came in a discovery request response where Staff reasoned that an "excessive" charge is one that could have been "avoided as unnecessary." (Ameren Ex. 26.0, p. 6 (citing Staff response to AIC-Staff 8.03).) Where Staff's "unnecessary" standard begins and the "excessive" standard ends is uncertain. If excessive essentially means unnecessary, it seems unnecessary to have additional standards for "Unnecessary for Delivery Service and "Unnecessary for Provision of Utility Service." Staff's other interpretation of excessive is the purchase could have been "potentially transacted at a lower cost." (*Id*.) But there is nothing in the record to suggest AIC paid too much for any item.

As for Staff's "necessary" rationales, these standards misinform the Commission as to the proper determination the Commission must make concerning the recoverability of expenses in formula rates. Under Section 16-108.5(c)(1), the Commission must determine whether a charge is prudent, reasonable in amount, and related to the provision of delivery service, not whether a charge was "necessary" for delivery service. 220 ILCS 5/16-108.5(c)(1). Staff does not cite any Commission orders or statutory provisions that require AIC to demonstrate, in hindsight, each historical credit charge was "necessary." Nor is such an exercise workable in the context of formula rates. It would be tantamount to endless second-guessing of decisions about whether a particular cell phone, a specific television, a certain safety award or a business meal was a "necessary" utility expense to maintain safe, adequate and reliable gas service. And it would hamstring supervisors and employees into speculating whether each expense would later be judged to be strictly necessary.

Moreover, for the lion's share of the items Staff seeks to disallow, whether the focus rests

on the storm response and other utility equipment, the work-related meals, or the items purchased for employee appreciation, the testimony of Mr. Pate and Ms. Voiles demonstrates that the discontinuation of these and similar purchases would adversely impact AIC's delivery service. While AIC may be able to provide some level of service in the short term without a particular expense, it would not remain, over the long term, the level of service its customers expect.

More importantly however, Staff has not provided an explanation why each expense is not "necessary," even if that were the appropriate, after-the-fact standard to apply. There is no indication in Staff's testimony or schedules why the storm response and other utility equipment charges Staff seeks to disallow are not required to maintain service. There is no indication why the food and beverages provided at safety meetings and other business-related meals are not a necessary expenditure for the day-to-day operation of the utility. There is no indication why safety awards, purchases to recognize an employee's performance or length of service, or other items that show AIC's appreciation for its employees are not necessary to engage its workforce. Staff suggests there is no burden to demonstrate each individual expense is unreasonable or imprudent. (ICC Staff Ex. 8.0, p. 17.) But that is precisely what the Commission did in Docket 12-0293. One cannot review pages 67-68 of the Commission's order in that case without recognizing the Commission identified specific expenses and specific objections for each expense.

As for the final two prongs of Staff's Threefold Rationale, as stated above, AIC has provided testimony establishing the ratepayer benefit associated with each of the charges. Staff has not disputed those ratepayer benefits exist, but rather in response to discovery requests, has suggested that AIC must demonstrate "a quantifiable ratepayer benefit" or a "measure of

impact." (Ameren Ex. 26.0, pp. 10-11.) The basis for this requirement and how it should be applied is not explained in Staff's exhibits. Given the nature of the ratepayer benefits, quantifying or assigning a dollar amount impact would not be practicable (even if it were required). That does not negate the fact that ratepayers are benefitting. Again, there is no analysis of *why* AIC's explanation of ratepayer benefit is unpersuasive, only Staff's subjective, unsupported conclusions.

The substantial weight of the evidence submitted in the record in this proceeding demonstrates that each of the disputed corporate credit card expenses is prudent, reasonable in amount and reasonably related to the provision of delivery services. The asserted business justifications AIC provided for the charges and the ratepayer benefits AIC believes are realized from the expenses remain unchallenged. Staff's adjustment is speculative and without adequate support. The Commission should find the disputed charges are recoverable in delivery rates.

5. Sponsorship Expense (Account 930.1)

The record contains the analysis AIC conducted to determine the portion of 2012 sponsorship expense from Account 930.1 to recover in formula rates. Ameren Exhibit 24.1 (Rev.) identifies the recipient and amount of the sponsorship, the event, activity or cause sponsored, the print advertisements (if any) published at or in connection with the event, and the tangible benefits (if any) received by AIC employees. This analysis identifies the educational, charitable and public welfare benefits that flow from AIC's financial support of local communities and organizations. And this analysis calculates and self-disallows the electric portion of sponsorship expense ($39,301) that reflects the fair market value of meals, tickets and entertainment provided to AIC. The record demonstrates the sponsorships presented AIC with cost-effective opportunities to reach consumers with safety and energy efficiency messaging, or simply permitted AIC to contribute to a worthy enterprise. These costs should be recovered,

given that any tangible benefits received have been identified and removed. Recovery of similar sponsorships was permitted in the Commission's most recent rate order. The result should be no different here.

Staff seeks to remove a much larger amount of sponsorship expense, roughly $94,000 more than AIC has removed. (ICC Staff Ex. 10.0, Sch. 10.01.) The record does not support that larger adjustment. There is little weight given to AIC's analysis. There is little explanation of Staff's basis for individual sponsorships disallowances. And there is no consideration of the most recent, relevant Commission decision on sponsorship expense. These are incurable defects that make Staff's adjustment arbitrary, capricious and unsupported. The emphasis in the Commission's review of sponsorships should refocus and remain on the permissibility and recoverability of expenses actually spent on advertising, rather than the financial contributions intended to improve the quality of life in AIC's service territory. The Commission should adopt AIC's self-disallowance of sponsorship costs and reject Staff's larger adjustment as unjustified.

The Commission Has Permitted Rate Recovery of Charitable and Public Welfare Sponsorships.

In Docket 12-0293, AIC's last formula rate case, the Commission allowed recovery of 2011 sponsorships that "involved useful information from AIC." *Ameren Ill. Co.*, Docket 12-0293, Order, p. 74. For other sponsorships, amounts were disallowed ($30,834) in part because AIC employees received "benefits" from meals or tickets. *Id*., p. 76. The largest disallowance, however, was for "catch all" costs ($70,225) the Commission found unsupported by AIC's exhibits. *Id*. Despite those disallowances, the Commission recognized "charitable contributions and corporate sponsorships share some characteristics." *Id*., p. 74. The Commission's stated intent was not to disallow a charitable contribution just because it was recorded to an advertising account. *Id*.

After its Order in Docket 12-0293, the Commission issued its rate Order in Dockets 12-0511/0512 (cons.)—a 2013 future test year case filed by the Peoples Gas and North Shore utilities. (Ameren Exs. 14.0 (Rev.) (Kennedy Reb.), pp. 21-22; 24.0 (Kennedy Sur.), p. 8.) In that case, Staff sought to disallow certain sponsorships the utilities argued benefited customers. *N. Shore Gas Co. et al.*, Dockets 12-0511/12-0512 (cons.), Order, pp. 161-64 (June 18, 2013) (hereinafter Peoples/NS). The sponsorships included funding for child and family services organizations, public libraries, foundations and festivals. *Id*., p. 164. The Commission rejected Staff's adjustment, concluding "the nature of these sponsorships is charitable and recoverable under Section 9-277." *Id*. The Commission found "the nature of the expense is more important" than the account where the expense is recorded. *Id*. And the Commission noted the recipients were "charitable organizations or organizations providing public welfare or educational services" in the utilities' service territory. *Id*. The Commission also rejected Staff's adjustment to remove sponsorship expense of certain institutional events, including table sponsorships, concluding they were "made to support fundraising events for local charities and communities in the Utilities' service territory and not primarily to promote the Utilities or to foster goodwill towards the Utilities." *Id*., p. 169. The Commission found sponsorships expenses like these were "not barred by Section 9-225 of the Act and are recoverable under Section 9-225 and 9-227." *Id*.

As the Commission found in the Peoples/NS docket and acknowledged in Docket 12-0293, the overriding consideration, when weighing the recoverability of a sponsorship, is whether the funds to the recipient organization resulted in benefits to AIC's ratepayers. The benefit could be educational in nature, based on AIC's presence at the sponsored event and the advertising materials published at or in connection with the event. Or the benefit could be charitable or public welfare in nature, if the purpose of the sponsorship was to provide financial

support for the recipient's event, activity or mission. In other words, that AIC did not publish advertisements at or in connection with a sponsored event is not a basis for disallowance, if the event otherwise benefits customers in the utility's service territory. Granted, sponsorships can serve as a cost-effective vehicle for providing educational information to consumers, often in-person. But putting aside that aspect of a sponsorship, the Commission's recent orders confirm financial support for local organizations, whether accounted for as a contribution or sponsorship, is recoverable in rates, if the utility funding has a "charitable" or "public welfare" purpose.

AIC Has Removed Tangible Benefits Received from the Proposed Revenue Requirement.

In preparing its direct filing initiating this proceeding, AIC analyzed its 2012 sponsorship expenses, giving consideration to the Commission's guidance in Docket 12-0293. (Ameren Ex. 14.0 (Rev.), p. 14.) Two main actions were taken. First, AIC revisited internal guidance on community and public relations expenses in general and issued new guidelines on sponsorships. (*Id*., p. 16; Ameren Ex. 14.2.) Second, AIC reviewed 2012 sponsored events to identify whether all, some, or none of the sponsorship expense for an event, activity or cause should be included in AIC's updated formula rate revenue requirement. (Ameren Ex. 14.0 (Rev.), p. 16.) The point of the exercise AIC undertook was three-fold: (i) identify sponsorships that provided AIC an opportunity to leverage print or media advertising to educate and inform consumers; (ii) identify sponsorships that were principally financial contributions in support of the recipient's event, activity or mission; and (iii) identify and remove tangible benefits AIC employees in attendance received from the recipient. (*Id*., pp. 16-20.)

The result of AIC's review was a self-disallowance, both in this case and AIC's pending gas rate case (Docket 13-0192), of the fair market value of tangible benefits (*e.g.*, tickets, meals and entertainment) received by AIC employees from sponsored organizations. (Ameren Ex. 6.2 (Rev.).) In both this docket and Docket 13-0192, AIC deducted the value of the tangible benefits

(if any) from the cost of the sponsorship. The information compiled in Ameren Exhibit 6.2 (Rev.) was augmented in response to Staff data requests SRK 1.01 (in this docket) and BAP 23.01 (in Docket 13-0192), in response to Staff inquiries on the advertising messages, ratepayer benefits, rationale for recovery, and relation to delivery service of each sponsorship Staff proposed to disallow. AIC's response to those data requests, which included several additional minor self-disallowances, was presented in Ameren Exhibit 24.1. In total, AIC has removed $39,301 in sponsorship costs from its proposed electric revenue requirement.

Staff's Larger Sponsorship Adjustment Is Arbitrary, Capricious and Without Adequate Basis.

In direct testimony, Staff claimed it was disallowing sponsorships that "do not comport to the Section 9-225(3) standards or where the predominance of the messages was for activities prohibited as political, promotional, institutional goodwill." (ICC Staff Ex. 5.0, p. 3:58-61.) This was an amount in excess of what AIC had removed. Staff's adjustment is problematic because there wasn't any discussion to support it. There was only just Staff's statement. There was no analysis presented to show how Staff applied the Section 9-225(3) standards, or how Staff determined the predominance of the sponsorship's message. Staff also claimed its adjustment was "consistent" with Commission Orders in Dockets 12-0001 and 12-0293. (*Id*., p. 5.) But again there was no supporting explanation—there was just the statement. The only explanations provided were the sparse "comments" in Staff's Schedule 5.01 (column q) that implied Staff considered many expenses to constitute "goodwill." (ICC Staff Ex. 4.0R, p. 7.)[7] Even those "comments," however, did not explain the analysis conducted to support the

[7] A secondary problem with Staff's direct adjustment was that it double counted costs already removed from the revenue requirement. (Ameren Ex. 14.0 (Rev.), p. 23.) ICC Staff Exhibit 5.0, Schedule 5.0, Supp (p. 1 of 6) (line 6) indicates Staff removed the electric allocated tangible benefits AIC excluded. Staff's adjustment removed these costs a second time when it disallowed the full amount of the sponsorship. This is because Staff's approach did not take into account that AIC deducted the value of the tangible benefits from the sponsorship's cost. On rebuttal however, Staff corrected for this and removed only the remainder of the sponsorship expense.

disallowances.

On rebuttal, the standards and basis for Staff's adjustment became no clearer. Staff now claims the sponsorship costs it seeks to disallow "are not necessary for the provision of electric distribution service and do not provide a quantifiable benefit to Illinois jurisdictional ratepayers." (ICC Staff Ex. 10.0, p. 3:57-59.) Gone are the "comments" and any mention of "goodwill" from Schedule 5.01; that schedule has been replaced. (ICC Staff Ex. 10.0, p. 3.) Still missing, however, is any detailed discussion of methodology and criteria used to determine which sponsorship expenses to accept and which to disallow. (Ameren Ex. 24.0, p. 5.) No citations to prior Commission orders are provided to support Staff's new "necessary" and "quantifiable benefit" standards. (*Id*.) The only statutory provision mentioned is Section 9-225, without any indication Staff relied upon it to formulate its standards or make its disallowances. (*Id*.) Although the amount of Staff's adjustment may have been further refined on rebuttal, the same deficiencies in Staff's reasoning and evidence (discussed further below) remained.

First, as stated, Staff's testimony, schedules and data request responses give little explanation of the basis on which additional sponsorship expenses were disallowed. Staff's direct testimony contained one sentence that purported to state the reasons for Staff's adjustment. (ICC Staff Ex. 5.0, p. 3:57-61.) Staff's data request responses confirm this sentence as the basis for the adjustment. (ICC Staff Ex. 10.0, Attach. D (AIC-Staff 4.04).) The only other information provided in Staff's schedules, other than the identified individual amounts Staff proposed to disallow, were Staff's "comments." Absent, however, was analysis and explanation why certain sponsorships were "goodwill," why others should be disallowed for having "no ad," why others should be disallowed for "predominance of the message," and why sponsorships, without print advertisements, should even be analyzed under Section 9-225. Staff's data request

responses failed to provide any further specific information. (*See, e.g.,* ICC Staff Ex. 10.0, Attach. D (AIC-Staff 4.05(a), 4.05(f), 4.06(a), 4.07(a), 4.07(b)).)

Staff's rebuttal testimony further muddled the issue by identifying new standards, without any explanation for the basis or source of the new standards, and without any explanation of how those standards should be, or were, applied to disallow the specific sponsorships in this case. There remains no indication how Staff did—or anyone can—objectively apply Staff's standards. This makes it practically impossible to decipher the basis and reasons relied upon by Staff to support each component of Staff's larger adjustment to sponsorship expense. Simply bluntly stating an expense is not "necessary" or does not provide "benefits" just doesn't cut it.

Second, Staff's application of its standards, on its face, is inconsistent. For the most part, Staff appears to agree AIC can recover sponsorship expense for events where AIC provided an example of a print advertisement that was published at the event. For several events, however, including the sponsorship of the Illinois High School Association (IHSA) March Madness banquet and tournament and the sponsorship of the Peoria Rivermen Hockey "Goals for Kids" program, Staff disallows the entire amount of the sponsorship, despite the fact AIC identified a print advertisement. (Ameren Exs. 14.0 (Rev.), pp. 23-24; 24.0, p. 6; 24.1:69, 133.) Other examples of sponsorships on Ameren Exhibit 24.1 for which Staff is disallowing the full amount of funding, even though a print advertisement was identified, include the Tate and Lyle Players Championship for the Decatur Futures Charity (line 34); Edwardsville Chamber and Rotary fundraisers (lines 42, 44); the Broadway Theater Series and other funding for the Peoria Civic Center (lines 126-29); Quincy Gems (line 137); and U.S. Cellular Coliseum (line 162). Funding for these organizations provides AIC with opportunities to reach customers through signage or booklets. For the IHSA event, for example, AIC posted signage and distributed a booklet

concerning the Act-On-Energy program on energy efficiency awareness. (Ameren Exs. 24.1:69; 24.0, pp. 6-7.) But the funding also helps to ensure these organizations have the resources necessary to actually hold the youth events. (Ameren Ex. 14 (Rev.), pp. 17-18.) Staff questions the reasonableness of the costs for the IHSA and Peoria Rivermen events—two of the largest sponsorships in 2012. The record shows, however, the costs associated with these events provided substantial opportunities for educational messages and significant financial resources for recipients to draw upon to host the events. (Ameren Ex. 24.0, pp. 6-7.) Staff's testimony provides no explanation why the educational and public welfare benefits that flow from these sponsorships cannot be recovered, once the tangible benefits have been identified and removed.

Third, Staff's application of its standards seemingly ignores much of the information AIC provided in Ameren Exhibits 6.2 (Rev.) and 24.1, other than the example print advertisements identified with certain sponsorships. For example, Staff seeks to disallow the full amount of the electric-allocated portion of the sponsorship of the Decatur Celebration Outdoor Festival (Ameren Exhibit 24.0:32), even though there was a safety informational banner associated with the event. For other events, there is no indication Staff considered whether AIC's self-disallowance was sufficient (and no explanation why it wasn't). Collectively, the information compiled in Ameren Exhibit 24.1 identifies: (1) the type and value of tangible benefits; (2) the channels and messaging used at some events to communicate directly with consumers; and (3) the other sponsored activities that were largely or entirely financial contributions. (Ameren Ex. 24, pp. 12-13.) Copies of ads were provided. The subject matter of the messaging was identified. The recipient and event that received "charitable" or "public welfare" funding has been identified. Staff could have taken issue with the content of an advertisement, the nature of the financial support, or the benefit of a community event. But Staff hasn't done that. And the

absence of such analysis in the record supports the conclusion Staff's adjustment is arbitrary and capricious.

Fourth, Staff's adjustment does not give any consideration to the recoverability of sponsorship expense where AIC did not engage in traditional advertising at, or in connection with, an event or activity. The critical question Staff has not addressed is why a sponsorship, in the absence of a print advertisement, must be *per se* disallowable. As explained in the testimony of AIC witness Mr. Thomas Kennedy, who oversees AIC's sponsorships, many of the sponsorships listed in Ameren Exhibit 24.1 simply constituted financial support to local community organizations and municipalities to support an event, activity or cause that did not include traditional advertising opportunities. (Ameren Ex. 14.0 (Rev.), pp. 20-22.) The funding of these sponsored "public" events resembles closely the funding given to non-profit organizations to support public welfare and charitable causes under Section 9-227 of the Act. Although this type of sponsorship does not permit AIC to hang signage or distribute printed materials, AIC still considers the sponsored event, activity or cause itself to be important, both to the local community and to any AIC co-workers who volunteer or participate. (*Id*., p. 17.)

There are many, more direct, channels AIC could pursue, with broader reach, if the primary goal of these financial contributions was to enhance the image of the utility. (*Id*., p. 27.) Sponsorship of these local community initiatives, however, fits AIC's mission to enhance the quality of life in local communities. (*Id*.) Whether you consider the funding of Belleville High School hockey team's 5K run (Ameren Ex. 24.1:6), or Elmwood's narcotics canine program (*Id*. at line 24), or Hillsboro's sports complex lighting (*Id*. at line 26), or Decatur's Park Singers and First Tee programs (*Id*. at line 28)—these sponsorships and many others listed on Ameren Exhibit 24.1 that Staff seeks to disallow should be recoverable under Section 9-227, since AIC

provides these funds to local municipalities and other local non-profit organizations for a "charitable" or "public welfare" purpose. (Ameren Ex. 14.0 (Rev.), pp. 17-29.) Staff suggests a benefit to an attendee of a sponsored event does not correlate to a ratepayer benefit. (ICC Staff Ex. 10.0, p. 8.) That is shortsighted. The sponsored organizers who receive AIC's support are in its service territory. The communities where the events and activities are held are in AIC's service territory. The participants, the attendees and the people most impacted by the causes that the organizers support are residents in AIC's service territory. These are public ratepayer benefits.

The Commission has already rejected Staff's position that "public welfare" and "charitable" sponsorships are not recoverable. The Commission's recent findings and analysis in the Peoples/NS Docket concluded sponsorships given to "charitable organizations or organizations providing public welfare or educational services" and "fundraising events for local charities and communities" are recoverable expenses. *N. Shore Gas Co. et al.*, Dockets 12-0511/12-0512 (cons.), Order, pp. 164, 169. Staff, however, admitted it did not consider the decision when developing its adjustment in this case, and when asked to consider the decision, refused. (Ameren Ex. 24.0, p. 8; ICC Staff Ex. 10.0, Attach. D (AIC-Staff 4.02(a)).) Staff's rebuttal does not even mention the decision. It is not appropriate for Staff to claim its adjustments are "consistent" with prior Commission Orders (Dockets 12-0001 and 12-0293), but object to considering criteria in a more recent decision that undercuts the validity of its adjustment (Peoples/NS Docket).

Staff attempts to muddy the waters by suggesting AIC characterized sponsorship costs in its direct filing as strictly advertising expenses. (ICC Staff Ex. 10.0, pp. 5-7.) That suggestion misconstrues the intended purpose of Ameren Exhibit 6.2 (Rev.) and the analysis conducted

based on the Commission's guidance in Docket 12-0293. (Ameren Ex. 24.0, pp. 9, 13.) If AIC's print, audio and video presence at an event reaches a substantial number of customers, it might appropriately be considered advertising, and it would be appropriate to evaluate the recoverability of the expense under Section 9-225. But if AIC's presence is largely a financial contribution in support of an event, activity or cause, with little to no print, audio or video presence, then it should not be evaluated as advertising. Staff contends the Commission can disallow sponsorships as "goodwill" advertising, even if there is no advertising. (ICC Staff Ex. 10.0, Attach. D (AIC-Staff 4.06(c)).) That is not credible. For an expense to be disqualified as "goodwill" advertising, there has to be actual advertising. (Ameren Ex. 24.0, pp. 9-10.) The Commission should not "accept the premise that each of the expenses should be evaluated [only] as a category of advertising expenses" under Section 9-225, as Staff has. (ICC Staff Ex. 10, p. 6:132-34.) That the sponsorship cost was recorded in Account 930.1 and appears on Ameren Exhibit 6.2 (Rev.), rather than the Charitable Contribution C-7 Schedule, does not matter for determining whether the cost was prudently incurred, reasonable in amount, of benefit to ratepayers, and recoverable.

AIC has agreed to remove the electric-allocated portion of the tangible benefits AIC employees received in 2012 from sponsorship recipients. The remainder of the 2012 electric-allocated sponsorship expenses should be recovered in formula rates. As shown by the testimony and exhibits of AIC witness Mr. Kennedy, the sponsorship provided AIC with a cost-effective opportunity to reach consumers with educational messages, or otherwise provided financial support, for a charitable or public welfare purpose, to local communities and organizations. The point of compiling schedules such as Ameren Exhibits 6.2 (Rev.) and 24.1 is to be transparent with the Commission, Staff and ratepayers about the nature of the activities

AIC supports in its service territory and to identify the portion of that expense that should be recoverable in rates as a reasonable, prudent operating expense. Convincing, specific reasons why additional amounts should be disallowed have not been provided. The record supports Commission approval of AIC's self-disallowance. It does not support Staff's larger adjustment.

6. Community Outreach Expense (Account 908)

Separate from its adjustment for sponsorship expense, Staff also makes an adjustment to Community Outreach expense. Staff claims its rationale for disallowance is the "same." (ICC Staff Ex. 10.0, p. 3.) And like its adjustment to sponsorship expense, the deficiencies with Staff's adjustment to community outreach expense are the "same." There is no explanation why or how Staff determined these expenses are "not necessary for the provision of electric distribution service." (*Id*.) There is no explanation why or how Staff determined these expenses do "not provide a quantifiable benefit to Illinois jurisdictional ratepayers." (*Id*.) There is no explanation why these expenses are not recoverable as financial support for "charitable organizations or organizations providing public welfare or educational services" and "fundraising events for local charities and communities." *N. Shore Gas Co. et al.*, Dockets 12-0511/12-0512 (cons.), Order, pp. 164, 169. And there is no credible explanation why these expenses must only be evaluated under Section 9-225 of the Act, if there was no actual AIC "advertising" at the event.[8] As with sponsorships, AIC has removed the tangible benefits received ($300); the remaining expenses are recoverable. (Ameren Ex. 24.2: 9, 27.) Staff's

[8] In rebuttal, Staff claims AIC "characterizes" sponsorship and community outreach expenses as "advertising" expenses in direct. (ICC Staff Ex. 10, pp. 3, 6.) That isn't true. Ameren Exhibit 6.3 (Rev.) identified production and publication advertising costs charged to Account 909. Ameren Exhibit 6.3 (Rev.) did not concern sponsorship and community outreach expenses charged to Accounts 930.1 and 908. Ameren Exhibit 6.2 (Rev.) discloses those expenses. The portion Staff quotes from Ameren Exhibit 6.3 (Rev.) directs the reader to Ameren Exhibit 6.2 (Rev.). AIC's rebuttal and surrebuttal testimony also make clear AIC is not proposing to evaluate sponsorship and community outreach expenses *only* as advertising expenses under Section 9-225.

additional, larger adjustment ($7,000) is unsupported and should be rejected.[9]

The purpose of community outreach funding is twofold: to improve the quality of life in a community, and to cost-effectively educate customers and other stakeholders about available programs and current issues impacting the adequacy, safety and reliability of service. (Ameren Ex. 14.0 (Rev.) (Kennedy Reb.), p. 31; ICC Staff Ex. 10.0, Attach. A (SRK 1.05).) Community relations coordinators, operating center staff, and other personnel involved in the community typically represent AIC at these events to engage with customers, answer questions and provide information customers can use to make informed decisions about their energy usage. (Ameren Ex. 14.0 (Rev.), p. 31.) The event may present AIC with an opportunity to distribute an informational booklet. (*See*, *e.g.*, Ameren Ex. 24.2:5, 7, 11, 17.) Or it may permit AIC to have a booth. (*See*, *e.g.*, *id*. at lines 11, 17.) But there may not be a specific traditional print advertisement. The extent of AIC's presence may consist largely of the placement of AIC's name and logo on signage in the event space or recognition as a sponsor on the event's website. (*See*, *e.g.*, *id*. at lines 3, 9, 15, 19; ICC Staff Ex. 10.0, Attach. A (SRK 2.07).)

As was the case with sponsorships, AIC identified the recipient and amount of the community outreach funding, the date and location of the event, the content and placement of AIC's messaging, the category of attendee benefit, and the value of any tangible benefits. (Ameren Exs. 6.2 (Rev.); 24.2.) Staff concedes community outreach expense is recoverable, if associated with a print advertisement or booth display. (Ameren Ex. 14.0 (Rev.), p. 33; ICC Staff Ex. 10.0, p. 4.) Staff, however, proposes to disallow expenses where AIC's presence

[9] In addition, there is an error in Staff's community outreach adjustment (Schedule 10.02) related to the contribution to the Family Fun Zone at the Heart of Illinois Fair. The electric portions of the contribution and tangible benefits were $3,000 and $300. (Ameren Ex. 24.2:9.) Deducting the benefit from the contribution results in an amount of $2,700—the amount AIC is seeking to recover. Staff's schedule, however, disallows the entire electric cost ($3,000) and also deducts the full amount of the tangible benefit ($500). That adjustment double counts $800.

largely consisted of the placement of its name and logo on signage in the event space or on the event's website. (Ameren Ex. 24.2:3, 9, 15, 19.) Staff claims AIC "has failed to provide adequate justification why the electric ratepayers should be responsible to support these events or why such expenses are necessary for the provision of utility service." (ICC Staff Ex. 10.0, p. 4:83-85.)

As with its adjustment for sponsorships, the standards and basis for Staff's disallowance of community outreach funding for individual events are not well developed and are not entirely clear. In direct testimony, Staff provided a one sentence explanation, claiming the expenses were "predominantly goodwill, not necessary for the distribution of electricity, or do not provide a benefit to electric distribution customers." (ICC Staff Ex. 5.0, p. 6:115-17.) In addition, Staff's Schedule 5.02 (column r) provided "comments" that implied Staff was disallowing the expenses as "Goodwill, no ad." Staff did not conduct any discovery prior to filing its direct testimony on AIC's sponsorship or community outreach expenses. (Ameren Ex. 14 (Rev.), pp. 30, 33.) Thus, Staff based its disallowance entirely upon the information included in Ameren Exhibit 6.2 (Rev.), without asking additional questions about the purpose, messaging or benefits associated with the funding. (*Id*.) Staff's responses to data requests confirmed this. (ICC Staff Ex. 10.0, Attach. D (AIC-Staff 4.02(e); AIC-Staff 4.04).) Staff also offered no evidence the expenses associated with the individual signage or website community outreach events were incurred for the primary purpose of enhancing AIC's image. Instead, Staff presumed they were unrecoverable.

The case for disallowance Staff presented in its rebuttal is similarly weak and muddled. Staff argues the disallowed community outreach expenses "are not necessary for the provision of electric distribution service and do not provide a quantifiable benefit to Illinois jurisdictional

ratepayers." (ICC Staff Ex. 10.0, pp. 3:57-59, 4:83-85.) Staff also argues Ameren Exhibit 6.2 (Rev.) does not identify a "specific benefit" or explain "how the attendees benefited through 'public welfare' or 'education.'" (*Id*., p. 8:170-71.) These arguments, however, widely miss their mark. There isn't an explanation of the source of Staff's rebuttal standards. (No decision or statute requires proof or necessity or quantifiable benefit.) There isn't a discussion of how those standards were or should be applied to the specific expenses Staff seeks to disallow. (All provide educational, charitable or public welfare benefits.) There isn't an indication how or whether Staff is still seeking to disallow these expenses as "goodwill" under Section 9-225. (They aren't public image advertising.) And there isn't any justification why expenses without an associated advertisement or booth are *per se* unrecoverable. (They should not be.)

Staff concedes community outreach costs can provide educational benefits. That Staff doesn't disallow the expense for events with an associated advertisement or booth display confirms this. The Commission's recent decision in the Peoples/NS Docket provides the basis for recovery of the remaining expenses. Financial support for "charitable organizations or organizations providing public welfare or educational services" and "fundraising events for local charities and communities" are recoverable contributions. *N. Shore Gas Co. et al.*, Dockets 12-0511/12-0512 (cons.), Order, pp. 164-169. The community outreach costs Staff proposes to remove fall squarely within the purview of that decision. Staff's adjustment must be rejected.

7. Advertising and Public Relations Expense

a. Potentially Comparable Simantel Expense (Account 909)

AIC ordinarily charges production and publication costs for traditional print and media advertisements to FERC Account 909. (Ameren Ex. 6.0 (Kennedy Dir.), p. 22.) Account 909 expense includes costs incurred "[e]mploying agencies, selecting media and conducting negotiations in connection with the placement and subject matter of information programs." (*Id.*,

p. 23.) AIC utilized outside agencies for the staff, resources and capabilities they can quickly and cost-effectively mobilize to produce communication materials. (*Id*.) These agencies provide a range of services AIC has not internalized such as graphic design, copywriting, and video production. (*Id*.) Utilizing outside agencies allows AIC to manage its operating expenses and internal labor, without jeopardizing efficiency and the quality of the customer education materials. (*Id*., p. 24.)

In Docket 12-0293, the Commission disallowed vendor expenses charged to Account 909 (electric) that had been collectively grouped under the umbrella of "Focused Energy For Life" (FEFL). *Ameren Ill. Co.*, Docket 12-0293, Order, pp. 63-64. These were charges from agencies allocated to AIC from Ameren Services Company (AMS) for various corporate communication services. (AG Ex. 1.5 (AG 2.11(c)).) The excluded charges related to services and work product provided by the Simantel Group, Inc. (*Id*.) In Docket 13-0192, in response to Staff data request BAP 6.02, AIC identified 2012 charges potentially "comparable" to Simantel expenses disallowed in Docket 12-0293. (*Id*.; Ameren Ex. 14.0 (Rev.) (Kennedy Reb.), p. 37.) AIC reproduced that same analysis in this docket in response to AG 2.11.[10]

The 2012 electric expense in Account 909 identified as potentially "comparable" to a Simantel expense disallowed in Docket 12-0293 was an invoice for $4,125 for Simantel's services on an ActOnEnergy workshop for contractors and employees on the Energy Efficiency Team. (AG Ex. 1.5 (AG 2.11(c)); Ameren Ex. 14.0 (Rev.), p. 38.) The workshop targeted methods to increase customer recognition and participation in energy efficiency programs by effectively integrating messaging for the ActOnEnergy programs. (*Id*.) In response to Staff data

[10] In response to BAP 6.02 in Docket 13-0192 and to AG 2.11 in this case, AIC indicated that just because a 2012 expense was identified as potentially "comparable" to an excluded 2011 expense did not mean AIC believed the 2012 expense should be disallowed from delivery rates.

request SRK 1.07, AIC provided additional information on this invoiced amount, including an explanation why the expense was necessary for the distribution of electricity and a description of the ratepayer benefits. (ICC Staff Ex. 10.0, Attach. D, SRK 1.07(b).) Based on AIC's response to SRK 1.07(b), Staff now has withdrawn its disallowance for this invoiced expense. (*Id*., p. 13.)

AG witness Mr. Brosch, however, continues to contest AIC's recovery of this invoiced Simantel expense. (AG Ex. 1.3C.) The problem with Mr. Brosch's adjustment is that he has not provided any analysis of the 2012 expense that would justify the disallowance. (Ameren Ex. 14.0 (Rev.), p. 42.) He hasn't even identified an external message associated with the Simantel charge that he finds objectionable as "goodwill." (*Id*., p. 43.) Indeed, in his rebuttal, Mr. Brosch admits he has not conducted an "independent critique" of any of the "potentially comparable" Simantel charges identified by AIC. (AG 3.0C, p. 21:455-60.) The Commission should not adopt AG's unsubstantiated adjustment to Account 909 expense. AIC has demonstrated this particular invoiced cost should be recovered in rates as prudent and reasonable, and Staff agrees.

b. Potentially Comparable Simantel Expense (Account 930.2)

Besides the expense discussed above, AIC identified other potentially "comparable" 2012 Simantel charges in Account 930.2. (AG Ex 1.5 (AG 2.11(c)); ICC Staff Ex. 10.0, Attach. D (SRK 1.07(c)).) These charges totaled $99,479. (*Id*.) In direct testimony, Staff proposed to disallow all amounts as "either goodwill or promotional in nature" because the Commission had disallowed "comparable" expenses in AIC's most recent formula rate orders. (ICC Staff Ex. 5.0, p. 6:127.) Staff's direct testimony, however, didn't analyze the 2012 expenses and identify a basis in the record *in this proceeding* to support disallowance of each expense. (Ameren Ex. 14.0 (Rev.), p. 36.) Without a specific objection to an invoiced expense and evidence the expense was "goodwill," it should not be removed, simply because it is potentially "comparable" to an expense disallowed in a prior docket. (*Id*., pp. 36-39.) The Commission needs to decide

each contested issue based on the facts presented in this docket, not just the conclusions rendered in a prior docket. (*Id*.)

The invoiced information summarized in Ameren Exhibits 14.3 and 24.6 for these expenses demonstrated the wide range of work requests and billed services handled by Simantel in 2012. This variety is not uncommon when the vendor is the agency of record for corporate communications. (*Id*.) The services provided included many ordinary expenses incurred by AIC's Community and Public Relations (CPR) group that would not be typical, traditional advertising, including expenses related to internal discussions and planning. (*Id*., p. 39.) The invoiced information summarized in Ameren's exhibits, including Ameren Exhibit 24.3, allowed for a specific determination whether a particular service is recoverable. (*Id*.) This was additional detail for each invoiced cost not provided in the record in Docket 12-0293. (*Id*.) And this is detail Staff and Intervenors should have used to make disallowances in this docket.

On rebuttal, Staff revised its adjustment based on its individual review of the invoiced costs and additional information AIC provided in response to SRK 1.07(c). (ICC Staff Ex. 10.0, p. 13.) Staff's recommended disallowance is now $68,000. (*Id*., Sch. 10.03.)[11] Staff's rebuttal adjustment, although lower in amount, still suffers from many of the same flaws present in Staff's adjustment on direct. Staff claims it continues to disallow Simantel expenses that AIC has failed to demonstrate were "necessary for the provision of utility service." (*Id*., p. 13:279-80.) But there is no discussion of prior Commission orders or Illinois statutory provisions that support Staff's "necessary" standard. (Ameren Ex. 24.0, p. 15.) Nor does Staff provide a narrative that explains how its "necessary" standard was applied to identify the amounts Staff

[11] Staff's adjustment does not reflect the two amounts (of $6,476 and $2,706) that AIC has agreed to disallow. (ICC Staff Ex. 10.0, Sch. 10.03:12,19.) AIC has removed the jurisdictional amount of $8,453 for those costs from Surrebuttal revenue requirement (See Ex. 18.5, line 10). After consideration of AIC's Surrebuttal adjustment, the remaining amount at issue is $59,362.

seeks to disallow. To its credit, Staff identifies individual expenses it finds objectionable, but Staff's testimony does nothing more than pay lip service to the costs it seeks to disallow. Simply making a list of expenses and claiming they are not "necessary" is not sufficient to establish record evidence to support an adjustment. There has to be some sort of analysis that considers the context of the expense and the Commission's prior decisions.

Staff adapts Schedule 10.03 to include a column to check off an expense as "not necessary for utility service." There is also a column to check off an expense as having "no identifiable work product." But Staff's rebuttal is devoid of any discussion why these standards were chosen and how they were applied. (*Id*.) There is no "work product" standard promulgated by the Commission that disallows vendor charges for services that did not result in finished material. (*Id*.) More importantly, for every item marked by Staff as having "no identifiable work product," AIC indicated Simantel's services involved developing messaging for internal meetings or otherwise generated content for emails, displays, PowerPoint, video, etc. (ICC Staff Ex. 10.0, Sch. 10.03:1, 5, 6, 9, 10, 13, 14, 15, 16, 17, 18, 20, 21; *see also* Ameren Ex. 24.6 (same lines).) The summaries of invoices provided in Ameren Exhibit 24.3 (SRK 1.07 Attach 2) and Ameren Exhibit 24.6 give every indication "work product" was generated for Simantel fees.

The information presented in Ameren Exhibits 24.3 and 24.6 also demonstrates the expenses Staff checks off as "not necessary" are recoverable expenses. Whether an expense is "necessary" misstates the dispute for the Commission to resolve. The issue is not whether the expense helps to keep the lights on. The issue is whether the expense can be recovered through formula rates as prudent, reasonable in amount and related to delivery service. The majority of the expenses Staff disallows as "not necessary" are amounts incurred to develop, produce and publish a print advertisement and PowerPoint presentation (speech) on economic development in

the greater St. Louis area ($32,790). (ICC Staff Ex. 10.0, Sch. 10.03:16, 17, 18, 20, 21, 22-29.)[12] As AIC witness Mr. Kennedy explained, these communications are intended to let customers and stakeholders know the role AIC plays in providing economic opportunity and jobs for Illinois citizens by investing in infrastructure and otherwise supporting the growth of industrial and commercial customers and other businesses. (Tr. 144.) Informing customers on the economic impact of AIC's delivery service is an expense reasonably related to the provision of that service. Staff, on the contrary, has not explained why the amounts should be disallowed.

In contrast to Staff, AG witness Mr. Brosch seeks to remove all potentially "comparable" 2012 Simantel charges in Account 930.2. (AG Ex. 1.3C, p. 3.) The sole basis for Mr. Brosch's adjustment, however, is the fact that AIC identified these amounts as potentially comparable. (AG Ex. 1.0C, p. 36.) In his adjustment to remove a Simantel charge from Account 909 expense, Mr. Brosch has not identified a particular invoiced expense from this subset of Simantel charges that he finds objectionable. (Ameren Ex. 14.0 (Rev.), p. 43.) As noted above, Mr. Brosch admits he has not conducted an "independent critique" of potentially comparable Simantel charges. (AG Ex. 3.0C, p. 21.) By way of comparison, Staff at least attempts an-invoice-by-invoice analysis (even if it still is lacking). (Ameren Ex. 24.0, p. 22.) Mr. Brosch attempts no such analysis to explain why any of the expenses should be disallowed. Given that AG's adjustment lacks any basis whatsoever, the Commission cannot adopt it.

AIC has self-removed the potentially comparable Simantel charges that did not relate to AIC electric delivery service or otherwise did not benefit AIC customers. The information

[12] The three remaining invoiced amounts ($10,120) Staff claims are "not necessary for utility service" are charges for "Methane to Megawatts" messaging and "clean coal" research. (ICC Staff Ex. 10.0, Sch. 10.03:13-15.) As indicated in Staff's exhibit, the two charges for "clean coal" research relate to mandatory quarterly environmental disclosures to the ICC on AIC's sources of electricity. (*Id*. at lines 14-15.) The charge to update the "Methane to Megawatts" website messages relates to customer education on the benefits of renewable sources of electricity. (*Id*. at line 13.) Staff has not explained why these communication costs should not be recoverable in rates.

contained in Ameren Exhibits 14.4, 24.3 and 24.6 provides a basis for recovery of the other costs, as prudently incurred, reasonable in amount and related to electric delivery service. Staff and the AG's adjustments lack the critical analysis necessary to support a disallowance and withstand a challenge on appeal. The Commission cannot defer to Staff and the AG's baseless branding of these costs as unnecessary. The Commission should adopt AIC's self-disallowance.

c. Other Simantel Expenses (Account 930.2)

In 2012, AIC charged $743,635 in Simantel costs to Account 930.2 (electric). (AG 1.3C, p. 3; Ameren Ex. 24.6.) This amount constituted a variety of corporate communication charges allocated to AIC from AMS. This amount also represented 88% of the approximately $845,000 in Public Relations expense charged to Account 930.2 (electric). (AG Cross Ex. 2.) As AIC disclosed in direct testimony, expense in Account 930.2 increased $600,000 or 20% in 2012, compared to 2011, due to the increase in outside agency costs charged to Public Relations expense. (Ameren Ex. 2.0 (Getz Dir.), p. 24.) The increase in Account 930.2 Public Relations expense in 2012 is in contrast with the decrease in Account 909 expense. In 2011, AIC charged roughly $2.5 million to Account 909 (electric). *Ameren Ill. Co.*, Docket 12-0293, Order, p. 58. This amount included the Simantel charges the Commission disallowed. *Id*. In 2012 however, Account 909 (electric) expense decreased to $1.5 million, as the bulk of the corporate Simantel charges were shifted from Account 909 to 930.2. (Ameren Ex. 6.0 (Kennedy Dir.), p. 24; AG Cross Ex. 1.) Overall though, electric expense in Accounts 909 and 930.2 in the aggregate decreased in 2012.[13]

[13] In addition, AIC charges Customer Assistance Expenses to Account 908. In 2012, expenses charged to the Customer Service and Information Expenses accounts (FERC Accounts 907-910) amounted to $58.1 million. (Ameren Ex. 2.0, p. 15.) AIC, however, reduced electric customer service and information expense by $53.1 million to remove the expenses AIC recovers through Rider EDR – Energy Efficiency and Demand-Response. (Ameren Ex. 1.0 (Stafford Dir.), p. 42.)

In addition to proposing the disallowance of all potentially "comparable" Simantel expenses, AG witness Mr. Brosch proposes a staggering and substantial adjustment to the remainder of Simantel charges in Account 930.2. Specifically, Mr. Brosch recommends the Commission remove approximately 50% of the remaining Account 930.2 Simantel expenses not identified as potentially "comparable." (AG Ex. 1.0C, p. 38; AG Ex. 3.0C, p. 27.) This amounts to the removal of approximately $298,000 from the revenue requirement. (AG Ex. 1.3C.) Mr. Brosch contends his review of information AIC provided indicates "clearly a diverse mix of activities and costs" embedded in the overall amount of Simantel expense. (AG Ex. 3.0C, p. 27:568.) Mr. Brosch believes his 50% disallowance represents a "reasonable apportionment" to shareholders of "discretionary" costs "not needed to provide safe and adequate utility service in Illinois." (*Id*., p. 27:564, 571.) Staff did not join Mr. Brosch's adjustment in its rebuttal testimony. The Commission should not adopt Mr. Brosch's adjustment in its final order.

As Mr. Brosch acknowledges in his direct testimony, in 2012, Simantel served as Ameren Corporation's (Ameren) agency of record for communication services. (AG Ex. 1.0C, p. 38.) The support Simantel provided AMS and AIC concerned a variety of internal and external communication initiatives. (*Id*.) The audiences were diverse: customers, other stakeholders, other contractors, AMS and AIC employees. (*Id*.) The projects were diverse: design and placement of ads, development and editing of scripts, strategic planning for quarterly external communications, drafting of internal guidelines, drafting of speeches and other presentations, creating materials for town hall meetings, preparing annual reports, and other work needed for meeting preparation. (*Id*.) The general purpose of these expenditures was to assist AMS and AIC personnel in implementing effective strategies that would produce and deliver internal and external educational materials and other communications. (Ameren Ex. 14.0 (Rev.) (Kennedy

Reb.), p. 49.)

The fundamental flaw in Mr. Brosch's proposed 50% adjustment is that, although he acknowledges the diverse nature of Simantel expenses, he fails to take that diversity into account. Ameren Exhibit 24.6 is an eight-page Excel worksheet that identifies the voucher number and AIC allocated amount (column c) for each Simantel invoice, as well as the unique job description (column e), the particular work requirement (column f) and the specific billed services (column g) associated with each Simantel invoice. It contains 29 individual lines of data for the potentially comparable amounts, and 123 individual lines of data for the remaining Simantel charges in Account 930.2. AIC manually compiled this information from the hundreds of pages of invoices provided in discovery. (AG Ex. 1.5 (AG 2.12); Ameren Ex. 24.4.) This information and other exhibits and discovery responses AIC provided (*e.g.*, Ameren Exhibits 14.5 and 24.5) were the basis for a line-by-line review of Simantel's charges.

Mr. Brosch's adjustment, however, doesn't rely on this information to propose a disallowance of specific invoiced Simantel expenses. Indeed, Mr. Brosch concedes he "applied a 50 percent disallowance factor to the Simantel public relations charges *in place of a more detailed review*." (AG Ex. 3.0C, p. 21:450-52 (emphasis added).) The admission of the lack of specificity sounds the death knell for his approach. In AIC's last formula rate case, the Commission stated that, "as a general matter the Commission is reluctant to disallow costs in the absence of specific concerns with particular expenses." *Ameren Ill. Co.*, Docket 12-0293, Order, p. 67 (rejecting Staff's generic threshold as lacking specificity and disallowing certain credit card expenses "in the absence of better support for these charges"). In AIC's first formula rate case, the Commission similarly found "the Commission is not comfortable accepting a general adjustment to a category of costs. In the absence of specific reasons behind objections to an

expense, the Commission questions whether it can know if a disallowance is indeed warranted." *Ameren Ill. Co.*, Docket 12-0001, Order, p. 92 (declining to adopt Staff's general disallowance not tied to specific invoices and particular advertising expenses). The Commission must reach the same result here.

To the extent detailed information on invoiced costs is provided at the invoice level, as was the case here, parties to the formula rate proceeding and the Commission should undertake a line-by-line review to identify specific concerns with particular expenses. (Ameren Ex. 24.0 (Kennedy Sur.), p. 22.) That would include reviewing the invoices provided and other discovery to test whether specific amounts billed are reasonable, whether the underlying job request was a prudent expenditure, and whether the services and work product provided reasonably relate to electric delivery service. (*Id*.) That is the type of review AIC undertook in responding to Staff discovery (SRK 1.07) and AG discovery (AG 7.08) on Simantel charges, which led AIC to self-disallow certain amounts. (*Id*.) That is the type of review Staff undertook in reviewing the potentially "comparable" Simantel charges. (*Id*.) And that is the type of review Mr. Brosch should have and could have undertaken in this proceeding to support his larger Simantel disallowance. Absent that sort of detailed review however, it is not appropriate for the Commission to make adjustments to remove expenses based on general disallowance factors that do not have a basis in the record. The AG's 50% disallowance of other Simantel charges should be rejected.

d. Other Public Relations Expense (Account 930.2)

The AG also proposes to disallow miscellaneous communication expenses paid to three other outside vendors: Karen Foss LLC ($42,015), Obata Design, Inc. ($5,989) and St. Louis Business Journal ($13,995). (AG Ex. 1.3C, p. 3.) Karen Foss LCC provided training to AMS and AIC executives, including CPR personnel, on effective methods for conveying sensitive and

timely information to the public. (Ameren Ex. 14.0 (Rev.) (Kennedy Reb.), p. 46.) Obata Design, Inc. provided message development and visual services for Ameren Corporation's (Ameren) Corporate Social Responsibility (CSR) Report, a publication that informed AIC customers on efforts to reduce the impact of delivery service on the environment. (*Id*., p. 47.) The charges for St. Louis Business Journal were for the sponsorship of the Journal's annual Women's Conference, an event that provided AIC with an exhibit area to present information on its energy efficiency programs and provided AMS and AIC personnel with leadership training and networking opportunities. (AG Ex. 3.3.) Staff's testimony does not adopt these adjustments. Neither should the Commission.

Mr. Brosch claims theses expenses are "discretionary expenses not properly included in the Company's revenue requirement in the absence of a showing by AIC that such amounts are in the best interest of ratepayers and are prudent, reasonable and necessary for the provision of delivery services in Illinois." (AG Ex. 1.0C, p. 36:808-11.) As with other adjustments he proposes, Mr. Brosch doesn't apply the proper standard: the formula rate statute provides "for the recovery of the utility's actual costs of delivery services that are prudently incurred and reasonable in amount . . . ." 220 ILCS 5/16-108.5(c)(1). More troubling though is the perfunctory nature of his adjustments. He dismisses the Karen Foss communication training as "[e]fforts to enhance the Company's image through media coaching." (AG Ex. 3.0C, p. 23:488-89.) He portrays the Corporate Social Responsibility (CSR) report as "focused upon enhancing the Company's public image." (*Id*., p. 23:497-98.) And he claims there is "no connection" between the St. Louis Business Journal Women's conference and "any essential AIC business purpose in Illinois." (*Id*., p. 24:512-13.) He is incorrect on all accounts. And his opinions are unsupported and unfounded.

The Karen Foss LCC training was expressly designed to provide AMS and AIC personnel with tools and techniques for communicating educational information to customers. (Ameren Ex. 14.0 (Rev.), p. 46.) The training included staged mock interviews, videotape debriefing sessions and group discussions. (AG Ex. 3.2, p. 2.) As AIC witness Mr. Kennedy testified, it is prudent to ensure that front-line communicators have the necessary training and skills for handling the sharing of information with the public. (Ameren Ex. 14.0 (Rev.), p. 46.) AIC must respond to inquiries from the news media about outages and other issues of importance to customers. (Ameren Ex. 24.0 (Kennedy Sur.), p. 23.) This reality requires AIC's communication team to be subject matter experts on a variety of operational issues and to have the ability to succinctly share information to customers through print, broadcast and social media channels. (*Id*.) Mr. Kennedy himself benefited directly from this "coaching" on how to address sensitive subjects and how to quickly frame messages to educate customers. (*Id*., p. 24.) There is no evidence in the record to suggest this was a deliberate exercise to enhance AIC's image, other than Mr. Brosch's speculation. The Commission should not engage in the same speculation. The AIC allocated portion of this media training should be recoverable in formula rates.

The same deficiency is present in Mr. Brosch's adjustment to remove the Obata Design charges for the CSR report. There is no evidence in the record to suggest this expense—or the CSR report—was disallowable "goodwill" or "promotional" advertising. The testimony of Mr. Kennedy again supports recoverability of the cost. As he explained, many independent studies have concluded that customers are interested in hearing about what their regulated utilities are doing to minimize the environmental impact of their services, including their delivery services. (Ameren Exs. 14.0 (Rev.), p. 47; 24.0, p. 24; Tr. 127-28.) The purpose of the CSR report was to

improve customer education and outreach on the utility's efforts to reduce its impact on the environment; the purpose wasn't to improve the public image of the utility. Expenses incurred to hire a qualified vendor to produce the CSR report are prudent, reasonable in amount and related to delivery service. They should be recovered in rates.

Lastly, Mr. Brosch's own evidence belies his claim that the allocated portion of the sponsorship of the St. Louis Business Journal Women's conference has "no connection" to AIC's electric delivery service. AG Exhibit 3.3, which is a copy of AIC's response to data request AG 7.10, indicates the sponsorship provided AIC with space in the exhibition area to display information on its energy efficiency programs. The data response also indicates the sponsorship cost included registration for 20 Ameren employees, including a number of AMS female executives. (*Id*.) This conference brought together local women entrepreneurs to talk about and get feedback on career advice, leadership principles, business challenges, social media, women's health issues, and networking. (*Id*.) The training and skills acquired by attendees can be leveraged to do their jobs more effectively, regardless of the location of the conference. (Ameren Ex. 24.0, p. 24.) The educational opportunities and enhancement offered to Ameren personnel by this conference provides the "connection" to AIC delivery service that makes the amount recoverable in formula rates. No evidence has been offered to show the expense was imprudent or unreasonable in amount. The Commission should permit recovery of the expense.

C. Recommended Operating Revenue and Expenses

1. Filing Year

The proposed filing year operating income / revenue requirement, without template changes, is shown on Schedule FR A-1 of Appendix A. The total filing year revenue requirement, without template changes, is $782,303,000, and the total net change in revenues (before uncollectible gross up) is $17,427,000. The proposed filing year year operating

income/revenue requirement, with template changes AIC is recommending be adopted in Dockets 13-0501/13-0517 (cons.), is shown on Schedule FR A-1 of Appendix B. The total filing year revenue requirement, with template changes, is $798,010,000, and the total net change in revenues (before uncollectible gross up) is $33,134,000.

2. Reconciliation Year

The proposed reconciliation year operating income / revenue requirement, without template changes, is shown on Schedule FR A-1-REC of Appendix A. The total reconciliation year revenue requirement, without template changes, is $774,752,000, and the total net change in revenues with interest is ($56,619,000) (Schedule FR A-4). The proposed reconciliation year operating income/revenue requirement, with template changes AIC is recommending be adopted in Dockets 13-0501/13-0517 (cons.), is shown on Schedule FR A-1-REC of Appendix B. The total reconciliation year revenue requirement, with template changes, is $776,041,000, and the total net change in revenues with interest is $55,103,000 (Schedule FR A-4).

IV. COST OF CAPITAL AND RATE OF RETURN

A. Resolved Issues

1. Rate of Return on Common Equity

AIC's rate of return on common equity is 8.72% for the Filing Year and 8.82% for the Reconciliation Year. 220 ILCS 5/16-108.5(c)(3); (Ameren Ex. 1.1, p. 13.) No party proposed an adjustment to the rate of return on common equity, and the issue is therefore uncontested.

2. CWIP Accruing AFDUC Adjustments

Staff witness Ms. Phipps proposed an adjustment to AIC's capital structure to remove portions of long-term debt, preferred stock and common equity that were reflected in the Allowance for Funds Used During Construction (AFUDC). (ICC Staff Ex. 4.0, p. 2.) Ms. Phipps contended that this adjustment was necessary to avoid double-counting portions of long-

term debt, preferred stock and common equity that the AFUDC formula assumes are used to finance Construction Work in Progress (CWIP). (*Id.*) AIC witness Mr. Martin noted that the effect of the adjustment on AIC's capital structure was nominal, and stated that, although AIC does not agree that Ms. Phipps's adjustment is necessary, it accepted the adjustment to narrow the issues in the case. (Ameren Ex. 12.0 (Rev.) (Martin Reb.), p. 2.)

3. Balance and Embedded Cost of Preferred Stock

AIC's embedded cost of preferred stock is 4.98%. (Ameren Ex. 1.1, p. 13.) No party proposed an adjustment to the embedded cost of preferred stock, and the issue is therefore uncontested.

As discussed above, Ms. Phipps proposed an adjustment to remove the portion of preferred stock balance that was reflected in AFUDC. (ICC Staff Ex. 4.0, pp. 2-3.) As a result of this adjustment, Ms. Phipps calculated a preferred stock balance of $59,064,651. (*Id.*) AIC accepted Ms. Phipps's adjustment related to CWIP and AFUDC. (Ameren Ex. 12.0 (Rev.) (Martin Reb.), p. 2.) Therefore, this issue has been resolved.

B. Contested Issues

1. Capital Structure

AIC's 2012 actual year-end capital structure was:

Short-Term Debt	$	0	00.000%
Long-Term Debt	$	1,594,403,746	43.995%
Preferred Stock	$	60,718,696	01.675%
Common Stock	$	1,968,951,906	54.330%
Total	$	3,624,074,348	100.000%

That actual capital structure is reasonable and it was prudently managed to support AIC's continued access to capital markets under all foreseeable market conditions. Thus, EIMA mandates that the Commission use it to set rates in this proceeding. 220 ILCS 5/16-108.5(c)(2). Staff and IIEC propose that the Commission approve capital structures other than AIC's 2012

year-end actual structure. Those parties, however, have not shown (and cannot show) that the actual 2012 capital structure was imprudently incurred or unreasonable. It was not. Rather, the bases for Staff and IIEC's proposals are not EIMA's requirements, but unsubstantiated conjecture as to what a better capital structure for AIC *might* have been in 2012. EIMA requires that the Commission reject such conjecture. It should approve AIC's 2012 actual year-end capital structure.

a. EIMA Requires that the Commission Approve AIC's Actual Capital Structure Absent A Showing of Imprudence or Unreasonableness.

EIMA is clear: "The performance-based formula rate approved by the Commission shall . . . Reflect [AIC's] *actual* year-end capital structure for the applicable calendar year, excluding goodwill, subject to a determination of prudence and reasonableness consistent with Commission practice and law." 220 ILCS 5/16-108.5(c)(2) (emphasis added). Thus, there is no question EIMA mandates use of AIC's "actual" capital structure. The reason for the mandate likewise is clear. EIMA requires AIC to invest over $600 million in upgrading its electric distribution system, facilities, and smart grid technology over a 10-year period. 220 ILCS 5/16-108.5(b)(2)(B). The Commission has approved that investment. *See generally, Ameren Ill. Co.*, Docket 12-0244, Order on Reh'g (Dec. 5, 2012). AIC's actual capital structure will be used to support that substantial investment. Thus, AIC's actual capital structure is the one that the Commission must approve. The only exception to the rule is if the Commission makes "a determination" that AIC's 2012 actual year-end capital structure was imprudent or unreasonable. 220 ILCS 5/16-108.5(c)(2). As explained below, the record evidence in this proceeding provides no basis for such a determination.

b. AIC's 2012 Actual Year-End Capital Was Prudently Managed and Is Reasonable.

AIC's actual capital structure as of December 31, 2012 reflects the cost of capital actually in effect for AIC as of year-end 2012. AIC specifically managed that capital structure, and particularly the 54.33% common equity ratio, to maintain strong credit metrics in order to access, at a reasonable cost and in varied economic market conditions, the funding necessary to meet its increasing capital requirements in light of and despite concern expressed by the credit rating agencies in 2012 regarding the stability of the Illinois regulatory setting. (Ameren Ex. 4.0 (Martin Dir.) (Rev.), pp. 3-4.)

AIC's Capital Requirements Are Increasing.

AIC's electric operations require significant annual capital investment, much of which is in replaced or upgraded infrastructure, and not in assets that will generate new business or reduce operating costs. (Ameren Ex. 5.0 (Perkins Dir.), pp. 18-20.) As an EIMA participating utility, AIC also has committed to invest substantial sums over the next 10 years in electric infrastructure upgrades. 220 ILCS 5/16-108.5(b)(2)(B). As such, AIC's capital investment over the next five years is expected to nearly double that of the last five. (Ameren Ex. 5.0, p. 22.) Yet, unlike the non-regulated market, AIC does not have the option to delay or defer these expenses, and it recovers significantly less of the expense through depreciation cash flow. (*Id.*, p. 20.) Those realities, coupled with the phase-out of AIC's large bonus tax depreciation adjustments, require AIC to rely more on the strength of its credit metrics to secure funding for its infrastructure investment at a reasonable cost. (*Id.*, p. 21.) Because AIC's capital requirements are increasing significantly, consistent and reliable access to external capital is of paramount importance. (*Id.*, p. 22.)

AIC Requires Strong Credit Metrics to Access Capital Funding.

As Assistant Vice President and Treasurer of Ameren Services Corporation and AIC, Mr. Ryan Martin is responsible, among other things, for managing the long- and short-term financing activities of Ameren Corporation and its subsidiaries, including their debt and equity issuances, and monitoring those entities' key credit metrics. (Ameren Ex. 4.0 (Rev.), pp. 1-2.) He explains why AIC requires continued, strong credit metrics to maintain access to the capital funding necessary to support its near-term, capital intensive infrastructure improvements and to maintain reliable, high-quality service at all times. (*Id.*, p. 4.)

AIC's credit quality must support all of the financing necessary to its operations and afford AIC continuing access to capital markets in times of varied economic conditions, which are inherently unpredictable. (*Id.*) AIC's access to that funding is, in part, a function of its credit metrics. This is because those metrics, in addition to subjective assessment of AIC's specific business risks, factor significantly into the credit rating agencies' evaluations of AIC's credit profile and their resultant assignment of credit ratings, on which investors rely. (*Id.*) If AIC maintains its current investment grade credit ratings, AIC will be reasonably assured access to the capital markets on a timely basis, at a reasonable cost, and under reasonable terms and conditions. (*Id.*, p. 5.) Moreover, AIC particularly requires strong credit metrics as a safeguard against ongoing negative credit rating agency sentiment regarding the supportiveness of the Illinois regulatory framework and AIC's ability to recover its cost and earn a reasonable return within that framework, as explained below. (*Id.*, p. 4.)

AIC's Actual 54.33% Common Equity Ratio Ensures Strong Credit Metrics.

Mr. Martin explained that AIC managed its 2012 actual capital structure to maintain strong credit metrics in order to access the funding to meet its capital commitments and provide for a healthy, investment grade credit profile consistent with sound financial practice. (Ameren

Exs. 4.0 (Rev.), pp. 4-5; 4.1). AIC specifically managed the 54.33% common equity ratio to maintain the strong financial ratios evaluated by the credit rating agencies when they assess creditworthiness and assign credit ratings. (Ameren Ex. 4.0 (Rev.), pp. 3-4.) That common equity ratio supports AIC's current investment grade ratings and safeguards them against events that could be detrimental to AIC's creditworthiness. (*Id.*, p. 5.)

AIC's 2012 actual capital structure takes into consideration the facts and circumstances AIC faced at that time. (Ameren Ex. 20.0 (Martin Sur.), pp. 16-20.) In 2010 and 2011, AIC targeted a capital structure between 50% and 55% because AIC's risk landscape at that time dictated an equity ratio at the high end of that range. (Ameren Ex. 4.0 (Rev.), p. 5.) AIC "was in the midst of a regulatory transition to the EIMA that was the subject of litigation and controversy during that year." (Ameren Ex. 20.0, p. 16:337-39.) While the credit ratings agencies were noting the potential positive implications of EIMA, they expressed concern over its implementation and the general unpredictability and volatility of the Illinois regulatory market. (Ameren Ex. 4.0 (Rev.), pp. 5-6.) For example, Moody's continues to rate the Illinois regulatory environment at the sub-investment grade Ba level. (*Id*., p. 6.) Moody's expressly characterizes the environment as "below average" and "challenging" due to concern regarding the contentious relationship between the Commission and investor-owned utilities, as evinced by dispute over the application of EIMA in recent rate cases. (*Id.*, pp. 21-22.) And, in a December 2012 publication assessing utility regulatory environments, Standard & Poor's (S&P) characterized the Illinois regulatory environment as "less credit supportive." (Ameren Ex. 4.0 (Rev.), p. 6.) It rated only three jurisdictions as *less* supportive than Illinois. (*Id.*)

Considering the rating agencies' sentiment, AIC's exposure to negative credit ratings or downgrade may increase to the extent EIMA is not fully implemented. To offset such concerns,

AIC specifically maintained a higher equity ratio. (*Id.*, p. 7.) AIC did not take finance actions, such as using dividends, to intentionally lower the equity ratio and create a more leveraged capital structure. (Ameren Ex. 20.0, pp. 15-17.) Staff agrees that credit ratings agency actions are influential, and acknowledges that it was possible for AIC's credit quality to have been impaired in 2012 if it had used dividends to reduce it actual equity to 51.00%. (Tr. 374.) AIC also left its actual capital ratio in place to preserve its credit quality, despite the Commission's decisions in its prior formula rate cases, Dockets 12-0001 and 12-0293, to cap AIC's equity ratio based on its parent's capitalization. (Ameren Ex. 4.0 (Rev.), p. 7.)

In sum, AIC's 2012 actual capital structure, and AIC management's decision to maintain the strength of that capital structure, was prudent and reasonable given AIC's expanding capital requirements and its current regulatory environment as evinced by the credit rating agencies' perception of its risk. (Ameren Ex. 20.0, p. 4; Ameren Ex. 5.0, pp. 15-16.) AIC's actual capital structure as of December 31, 2012 was consistent with sound financial practice, represents prudent business decisions, and is reasonable to use to set AIC's formula rate requirement. (Ameren Ex. 4.0 (Rev.), p. 3.)

c. The Record Does Not Support a Determination that AIC's 2012 Actual Year-End Capital Structure Was Other than Prudent and Reasonable.

Staff and IIEC recommend capital structures for AIC in this case. Their proposals, however, are not AIC's "actual" capital structure based on AIC's actual investment and business risk in 2012, but hypothetical structures engineered from Ameren Corp.'s capital structure and those of *other* utilities. These proposals do not withstand muster under EIMA.

Staff's Imputed Ameren Corp. Capital Structure Is Unlawful and Inappropriate.

Staff recommends that the Commission substitute AIC's actual 54.33% common equity ratio with that of its parent, Ameren Corp., based not on the prudency or reasonableness of AIC's

actual capital structure as EIMA would require, but on Staff's belief that, absent imputation of Ameren Corp.'s common equity ratio, AIC's capital structure would violate Section 9-230 of the Act. (ICC Staff Ex. 4.0, p. 7.) That Section provides: "In determining a reasonable rate of return upon investment for any public utility in any proceeding to establish rates or charges, the Commission shall not include any (i) incremental risk [or] (ii) increased cost of capital . . . which is the direct or indirect result of the public utility's affiliation with unregulated or nonutility companies." 220 ILCS 5/9-230. Staff contends AIC's affiliation with Ameren Corp.'s merchant generation business has affected AIC's cost of capital. (ICC Staff Ex. 4.0, pp. 8-9.) Staff's support, however, is a single report from a single rating agency—S&P—that suggests that AIC might receive a rating upgrade from S&P upon Ameren Corp.'s divestiture of its merchant generation affiliate. (*Id.*) Based on this one report, but without any quantitative assessment, Staff assumes that *Ameren Corp.'s* calculated common equity ratio of 51%, after disposition of the merchant generation's debt and assets, is sufficient for AIC in this case. Staff recommends that the Commission impute that ratio to AIC. (*Id*., pp. 7, 11.) But Staff's position is contrary to EIMA and Ameren Corp.'s 51% equity ratio is *not* sufficient for AIC. Staff's reliance on a lone rating agency report also is misplaced. The Commission should not impute a hypothetical equity ratio in place of AIC's actual prudent and reasonable one.

A Single S&P Report Does Not Support A Section 9-230 Adjustment.

Staff's sole basis for its Section 9-230 argument is S&P's isolated comments regarding its anticipated rating upgrade resulting from an expected affiliate divestiture. (ICC Staff Ex. 4.0, pp. 8-9.) This does not justify a Section 9-230 adjustment. (Ameren Ex. 12.0 (Rev.), p. 10.) S&P is the only agency among the three credit reporting agencies to consider the performance of AIC affiliates in its evaluation of AIC's credit quality. (Ameren Ex. 20.0, p. 9.) That is, unlike

S&P, Moody's and Fitch do not rate AIC on the basis of Ameren's consolidated financial condition. (Ameren Ex. 13.0 (Rev.) (Perkins Reb.), pp. 14-16.) Rather, those agencies rate AIC on a stand-alone basis based on actual financials, including AIC's actual equity ratio. (*Id.*, p. 18.) Thus, it is not reasonable to speculate that divestiture of Ameren Corp.'s merchant generation affiliate in December 2013 will have an affect on AIC's overall credit ratings. Notably, Fitch's March 15, 2013 report expressly states: "The transaction bears no impact on the credit ratings of UE and AIC." (*Id.*, p. 13:353-54.)

Further, AIC's affiliation with Ameren Corp.'s merchant generation affiliate has had no direct effect on AIC's risk and cost of capital, past or present. (Ameren Exs. 12.0 (Rev.), pp. 9-11; 5.0, pp. 6-7, 25.) For example, there is no evidence AIC's affiliation with other Ameren subsidiaries had any effect on the cost of 2.7% debt AIC issued in 2012, which was issued at a Company record-low 10-year coupon rate. (Ameren Ex. 12.0 (Rev.), p. 10.) The 2.7% coupon rate benefited AIC and its customers, and it likely would not have been attainable if there were inter-affiliate concerns that hampered AIC's credit quality. (Ameren Ex. 20.0, p. 19.) In Mr. Martin's experience, investor sentiment regarding AIC's creditworthiness largely is a function of their perceived supportiveness of the Illinois regulatory setting and AIC's actual and forecast credit metrics. AIC's affiliation with other Ameren Corp. subsidiaries, however, has not been a cause for investor concern and an upgrade from S&P resulting from divestiture of Ameren Corp.'s merchant generation business is unlikely to significantly impact AIC's cost of debt. (Ameren Ex. 12.0 (Rev.), pp. 10-11.)

Moreover, lowering AIC's equity ratio below its actual level just as Ameren Corp. has taken further steps to reduce its non-regulated operations makes no sense. In fact, it would have the opposite effect, by reducing balance sheet strength, diluting cash flow, and signaling to

investors increasing regulatory risk. (Ameren Ex. 5.0, p. 39.) By imputing Ameren Corp.'s lower equity ratio to AIC, Staff actually incorporates affiliate credit risk into AIC's rates in a manner that directly relates to the financial activity of Ameren Missouri and unregulated generation. Within the context of the EIMA, the prospective effect is almost direct as rates are updated annually. For example once Ameren Corp.'s non-rate regulated generation affiliate (Genco) and its associated debt is divested, the equity ratio may increase; when Ameren Missouri borrows money, the debt ratio may increase. It should go without saying that financial activity at Ameren Corp., Genco, or Ameren Missouri should have no bearing on annual rates effective pursuant to EIMA.

It Is Not Appropriate to Impute Ameren Corp.'s Equity Ratio to AIC.

Practically speaking, Ameren Corp.'s 51% equity ratio simply is not appropriate for AIC for several reasons. First, as Mr. Martin explains, AIC's actual capital structure is designed and maintained specifically for AIC; it bears no relation to Ameren Corp.'s combined capital structure. (Ameren Ex. 20.0, p. 13.) Second, Ameren Corp.'s equity ratio is affected by concerns other than AIC, and principally those related to Ameren Missouri and its unregulated merchant generation affiliate. (Ameren Exs. 4.0 (Rev.), pp. 8-11; 20.0, pp. 12-13.) For example, Ameren Corp.'s capital structure includes $304 million of industrial development bonds issued by Ameren Missouri that were removed from capital structure for Missouri ratemaking purposes. (Ameren Ex. 12.0 (Rev.), pp. 12-13.) Also, if capital leases and merchant generation public debt are removed from Ameren Corp.'s capital structure, its equity ratio would increase to 52.5% and would align more with AIC's 2012 actual year-end capital structure. (*Id*.) Clearly, imputation of Ameren Corp.'s capital structure would introduce into AIC's structure financing decisions that have no bearing on the business conditions actually facing AIC. (*Id*.)

Third, and perhaps most importantly, imputing Ameren Corp.'s 51% equity ratio to AIC would risk AIC's current credit rating. AIC must provide adequate service to its customers, despite fluctuations in the market. Consequently, it must be able to access the markets during varied economic conditions to obtain, at a reasonable cost, the funding it needs to meet its operating needs and to replace and upgrade its extensive infrastructure. (Ameren Ex. 5.0, p. 15.) As explained, the rating agencies' outlook on AIC's risk, on which investors rely, is key to AIC's ability to access the capital it needs, and at a reasonable cost. (*Id*., p. 26.) The credit ratings agencies determine AIC's risk based on a number of variables, notably including the debt and equity comprising its capital structure. (*Id.*, p. 18.) As explained above, AIC's 2012 actual 54.33% equity ratio was prudently managed to maintain its current investment grade rating from the credit agencies. Imputation of a lower and riskier 51% common equity ratio ignores and would subvert that goal by risking AIC's investment credit rating and, as a result, potential loss of access to capital or increased prices for capital. (*Id.*, p. 23; Ameren Ex. 20.0, pp. 15-18.) In fact, as Mr. Martin explained, the use of an imputed capital structure in this case would effectively lower AIC's actual return on equity by approximately 50 basis points, which could challenge its ability to attract investors and compete with other investment opportunities. (Ameren Ex. 20.0, p. 3.) Use of an imputed equity ratio also would undermine the intended benefits of EIMA, namely ratemaking predictability and consistency. (*Id*.)

Staff disagrees that imputation of a 51% common equity ratio could weaken AIC's credit profile. But Staff's position is premised on an attempt to predict credit rating agency decisions and its selective read of recent credit rating agency reports. (Ameren Ex. 20.0, pp. 18-20.) Staff's witness on this issue, Ms. Phipps, points to statements in the rating agency reports suggesting an improved regulatory framework in Illinois. But where she highlights one

statement, she simply ignores another. For example, Ms. Phipps cites the reservation recently expressed by Moody's regarding the EIMA: "*Although the utility's regulatory framework remains challenging*, legislative support for the recovery of prudently incurred investments is a step in the direction toward better overall cost recovery prospects." (*Id*., p. 20:425-28 (emphasis added).) Inexplicably, Ms. Phipps describes that statement an "overwhelmingly positive development," despite that, as noted, Moody's continues to rate the regulatory environment in Illinois as sub-investment grade. (*Id.*, p. 21:432.)

In fact, examining all three credit reporting agency reports concerning AIC demonstrates clearly and irrefutably that the principle credit risk for AIC is the perceived (lack of) support in the Illinois regulatory environment. (Ameren Ex. 12.0 (Rev.), p. 11.) Indeed, Ms. Phipps agrees regulatory changes and events since 2007 have been a source of concern for credit ratings agencies regarding the stability or supportiveness of the Illinois regulatory environment. (Tr. 376-79.) And she agrees that AIC's financial condition should be managed in light of possible future ratings actions. At hearing, she testified:

> their financial condition should be managed in a way that would allow them to access the capital markets under most conditions. I'm not sure that there is any way they could manage it in a way that would allow them to access the capital markets under every possible worst-case scenario.

(Tr. 375.)

In sum, reducing AIC's equity balance to that of Ameren Corp. risks AIC's current investment grade ratings (and, as a result, its capital costs). (Ameren Ex. 13.0 (Rev.), pp. 9, 10.) To maintain AIC's capital market access at reasonable rates, it is necessary that the key financial ratios viewed as important by rating agencies and investors—including the levels of equity and debt in the capital structure—be kept strong, and that the perception of the Illinois regulatory environment remains positive. (Ameren Ex. 5.0, p. 18.) The ratings agencies, however, continue

to demonstrate concern regarding AIC's regulatory support, and they rely on the Commission's recent electric formula rates decisions. (*Id.*, pp. 27-36; Ameren Ex. 13.0 (Rev.), p. 10.) If AIC's actual capital structure is destabilized by approval of an imputed hypothetical one, the ratings agencies may react negatively, potentially harming AIC's long-term capital costs. (Ameren Ex. 5.0, p. 37.) Acceptance of AIC's actual, prudent, reasonable structure here, as EIMA requires, would signal the support necessary to maintain AIC's current credit ratings. (*Id*., p. 29.)

Staff's Hypothetical Capital Structure Is Contrary to EIMA, Long-Standing Financial Theory, and Recent Utility Ratemaking Precedent.

Imputation of a hypothetical capital structure also is inconsistent with established financial theory and utility ratemaking precedent. Mr. John Perkins, AIC's external expert witness on this issue, explains that academics and federal and state regulatory commissions have regularly rejected such an approach, favoring instead reliance on utilities' actual, stand-alone structures. (Ameren Ex. 13.0 (Rev.), p. 21.) The academic literature has long recognized the flaws of an imputed capital structure. (Ameren Ex. 5.0, pp. 8-9.) Notably, use of a hypothetical capital structure is contrary to investor sentiment in that it assumes a utility's rate of return depends on the source of the capital, rather than on the risks faced by the capital. It therefore implies—erroneously—that source is a key variable considered by investors. (*Id.*, pp. 14-15.) Considering a utility's actual, stand-alone capital structure, in contrast, aligns with the actual basis for investor decisions—the risk of the investment. (*Id*., p. 8.) Use of a hypothetical structure also creates a fiction wherein the equity contributed by a parent to its subsidiary has one cost, while the equity contributed by public investors has another. (*Id*., p. 10.) This, Mr. Perkins explains, would violate the "law of one price," which holds that, in an efficient market, identical assets have the same price. (*Id*., p. 12.) In other words, use of a hypothetical capital structure would treat a publicly held utility differently from one that is the subsidiary of a holding

company based only on the form of ownership. (*Id*., pp. 13-14.) For these reasons, Mr. Perkins explains, the FERC and other state commissions have rejected in their ratemaking decisions imputation of a hypothetical approach where the utility (like AIC) issues its own debt and has its own credit ratings and where its actual equity ratio is not so removed from that of other utilities so as to be unreasonable. (*Id.*, pp. 12-13.) As explained above, that is the case for AIC.

IIEC's Imputed Average Capital Structure Is Unlawful and Unfounded.

IIEC argues AIC's actual capital structure is unreasonable because it is not consistent with AIC's reduced risk resulting from implementation of EIMA. (IIEC Ex. 1.0, pp. 3-4.) IIEC instead would impute a hypothetical common equity ratio "cap" of 50% that reflects an average of the ratios authorized by other regulatory jurisdictions. (*Id.*, pp. 6-7, 8-9.) In suggesting that IIEC's average 50% cap is reasonable, IIEC points to Commonwealth Edison (ComEd) which it argues proposes less than 50% common equity in its capital structure. (*Id*., pp. 7-8.) Because ComEd and AIC have identical current senior unsecured credit ratings, IIEC believes imputing ComEd's equity balance to AIC will preserve AIC's credit standing. (*Id.*, p. 8.)

IIEC's Hypothetical Average Common Equity Cap Is Unlawful.

Initially, IIEC seems to have lost sight of EIMA's requirement that AIC's actual 2012 year-end capital structure should be used to set rates in this proceeding. In advocating an optimal structure with a hypothetical common equity cap, IIEC ignores that, unlike a traditional rate case where rates are set for an indefinite future period, EIMA's formula rate structure requires rates to be set based on the utility's actual experience and, consequently, mandates annual update filings. Thus, proxies, averages and forecast capital structures are not appropriate. (Ameren Ex. 12.0 (Rev.), p. 7.) IIEC's hypothetical cap is an attempt to normalize values used in a formula rate when the point of EIMA's rate structure is for rates to track actual per period

costs more accurately than the method afforded by test year-based ratemaking. (*Id*., p. 17.)

The EIMA Has Not Reduced AIC's Risk in the Manner in Which IIEC Claims.

IIEC's contention that the advent of EIMA eliminated a substantial and material risk to AIC can only be true if EIMA operates as the formulaic ratemaking paradigm it was designed to be. But, the potential benefits of the formula rate framework may be offset by the market's concerns regarding the constructiveness of the ratemaking decisions that an improved regulatory framework is intended to yield. (Ameren Ex. 12.0 (Rev.), p. 15.) Thus, while EIMA presents AIC the opportunity to earn a fair return, it does not guarantee that outcome. And, as explained, whether EIMA is properly implemented poses a risk to AIC's operations; the credit rating agencies have highlighted that risk. (*Id.*, pp. 14-15.)

In arguing that EIMA has reduced AIC's risk, IIEC does not present the whole story regarding credit ratings agency perception of risk in light of EIMA. (*Id.*, p. 16.) The rating agencies still have concerns related to AIC's regulatory environment. For example, in its June 13, 2013 AIC credit report, Moody's cautions that "the ICC has a history of authorizing punitive rates of return and disallowances that led to contentious relationships with the utilities. The poor regulatory treatment has been a key negative credit factor for utilities operating in Illinois." (*Id*.)

IIEC also claims that a lower equity ratio is warranted because EIMA lowers risk for AIC. (IIEC Ex. 1.0, pp. 2-3.) This, however, fails to explain the broader context of the EIMA, and specifically that the law provides a formulaic return on equity that is relatively low. (Ameren Ex. 12.0 (Rev.), p. 15.) For example, in the Peoples/NS Docket, the Commission noted the average authorized return on equity for gas utilities is 9.94% (*N. Shore Gas Co. et al.*, Dockets 12-0511/12-0512 (cons.), Order, p. 205); Mr. Gorman recommends a lower one—9.10%—in AIC's pending gas rate case. (Ameren Ex. 12.0 (Rev.), p. 15.) The rate of return

required for 2012 for EIMA participating utilities, in contrast, is only 8.72%. (*Id*.)

Comparisons to ComEd's Common Equity Ratio and Those of Other Utilities Are Misplaced.

IIEC's argument AIC's equity ratio should be closer to the average of equity ratios authorized by other state commissions and that of ComEd also is without merit. Notably, utilities typically maintain equity ratios of 40-60%, and AIC's actual 2012 year-end equity ratio falls within that range. (Ameren Ex. 12.0 (Rev.), p. 16.)

The significant difference between the equity ratios proposed by ComEd, on which Staff also relies (ICC Staff Ex. 9.0, p. 14), and AIC in their respective rate case proceedings (45.8% for ComEd, and 54.33% for AIC) primarily is attributable to the relative size of purchase accounting balances that must be deducted from equity for ratemaking purposes. (Ameren Exs. 20.0, pp. 13-14; 13. 0 (Rev.), pp. 24-25.) Further, although IIEC and Staff argue ComEd's equity ratio is lower than AIC's, the opposite is true, at least as viewed by the ratings agencies and, consequently, investors. (Ameren Ex. 20.0, p. 14.) Moody's most recently published credit opinion indicates ComEd's debt to capital ratio as of December 31, 2012 was 37.0%, while AIC's as of March 31, 2013 was 39.2%. (*Id*.) Thus, ComEd's equity ratio as computed by Moody's and used to evaluate creditworthiness and establish ratings is more than 200 basis points *higher* than AIC's. (*Id.*, pp. 2-3; Ameren Ex. 21. 0, p. 10.) ComEd also is a different Company than AIC. (Ameren Ex. 12.0 (Rev.), pp. 17-18.) Mr. Martin explains that ComEd has a capitalization that includes much more equity than is recognized for ratemaking related to the PECO-ComEd merger. (*Id*., p. 18.) Moreover, ComEd faces business fundamentals different from those facing AIC. For example, ComEd is a very large utility company in a major metropolitan area, and its parent is a large holding company that owns other large utility companies (*Id*.)

Put simply, AIC's equity ratio should be adjudicated based on the merits of the credit and business decisions facing *AIC*, not some other utility or Ameren Corp.

Conclusion

The evidence offered by Mr. Martin and Mr. Perkins on behalf of AIC overwhelmingly supports the use of AIC's 2012 actual capital structure, as contemplated by the EIMA. With the adoption of Senate Bill 9, there should exist no further questions regarding the intent of the EIMA. The express intent is to use actual year-end capital structure, and AIC has fully supported the adoption of its 2012 actual year-end capital structure in this proceeding.

Notably, there is a paradoxical effect to Staff's imputed, hypothetical capital structure adjustment. Disparity between AIC's filed position and the Commission's authorized rates heightens concerns of credit ratings agencies concerning the implementation of EIMA which they otherwise view as a positive framework. AIC then maintains higher credit metrics to off-set the concerns about the regulated environment, thereby perpetuating the issue annually in a manner that further denigrates the perception of the Illinois regulatory environment, and with it, AIC's credit quality. Moreover, by accepting some measure of capitalization other than year-end actual experience, AIC will be required to endure effects of negative comments that weigh on its perceived credit quality as it proceeds to finance the capital expenditure requirements imposed by the EIMA, which are substantial. But none of this need be. AIC's 2012 actual year-end capital structure was prudently incurred and it is reasonable. Accordingly, as EIMA requires, AIC's actual capital structure should be approved for the purpose of setting rates in this docket.

2. Common Equity Balance

AIC's capital structure for 2012 is calculated using year-end balances for preferred stock, common equity, long-term debt, and short-term debt. (Ameren Exs. 1.0 (Stafford Dir.), p. 15; 1.0S (Stafford Supp. Dir.), p. 3.) The Company adjusted its common equity balance by

subtracting $356,284,459 (for goodwill net of purchased accounting), to exclude the effects of purchase accounting related to Ameren Corporation's 2004 acquisition of the Illinois Power Company (Illinois Power or IP), as required by the Commission's Order in Docket 04-0294 and consistent with the Commission's Order in Docket 12-0001. (Ameren Ex. 18.0 (2d Rev.) (Stafford Sur.), pp. 50-51.)

As the Commission is well aware, in Docket 04-0294, the Commission approved Ameren Corporation's acquisition of Illinois Power, and also approved the accounting for all regulatory purposes that followed. *Illinois Power Co.,* Docket 04-0294, Order, pp. 33-34 (Sept. 22, 2004). Accounting standards required that the Company "push down" [14] any investment onto Illinois Power's books, and also required that the Company adjust both assets and liabilities to fair market value. *See id.*, pp. 32-34. Therefore, the Commission ordered that all purchase accounting be reversed for ratemaking purposes. The Commission concluded:

> Based on the record, and subject to the Applicant's agreement to reverse the effect of push down accounting for state regulatory purposes, the Commission concludes that IP's proposed accounting entries for elimination of the Intercompany Note . . . are reasonable and in accordance with applicable accounting requirements, and should be approved. The Commission also adopts the recommendation of Staff witness Ms. Pearce that the impact of push down accounting should be collapsed into Account 114, plant acquisition adjustments, for all Illinois regulatory purposes such as reporting in Form 21 ILCC.

Illinois Power Co., Docket 04-0294, Order, pp. 33-34.

As Mr. Stafford explained, this regulatory accounting has been consistently followed and applied in rate cases subsequent to the acquisition. (Ameren Ex. 18.0 (2d Rev.), p. 50.) In each rate proceeding since the Order issued in Docket 04-0294, including this one, the Company has

[14] "Purchase accounting" is a term that, as to these controverted issues, relates to the accounting entries that were made pursuant to applicable accounting standards at the time of IP's acquisition.

reversed the effects of purchase accounting collapsed into Account 114. (*Id.*) And Staff does not oppose subtracting $356,284,459 from the common equity balance. (ICC Staff Ex. 4.0, p. 5.)

a. Purchase Accounting/Goodwill

IIEC witness Mr. Gorman proposed, in his direct testimony, to exclude an additional $54.4 million from the common equity balance to reflect the difference between AIC's $356 million self-adjustment and AIC's $411 million of goodwill assets. This adjustment contravenes the Commission's Order in Docket 04-0294—and was expressly rejected in Docket 11-0282. In subtracting the entire goodwill balance of $411 million without netting all other purchase accounting adjustments, Mr. Gorman overstates the required reduction to common equity. (Ameren Ex. 9.0 (Rev.) (Althoff Dir.), p. 41.) Thus, his proposal directly contradicts the Commission's Orders in Dockets 04-0294 and 11-0282 expressly addressing this issue. (*Id.*, p. 42.) In Docket 11-0282, the Commission entertained, and rejected, a proposal identical to the one made by Mr. Gorman in the instant case:

> Staff recommends removing from the common equity balance the balance of goodwill on AIC's books. AIC argues that Staff's proposal reduces the common equity balance by too much because a portion of the goodwill balance on its books is offset by purchase accounting transactions…As previously discussed, the Commission understands purchase accounting to be technical and complex. It appears to the Commission that while easy to understand, Staff's recommendation on this issue is overly simplistic. The Commission concludes that the record supports AIC's position that purchase accounting and goodwill are intertwined. It is clear to the Commission that Staff's recommendation does not reflect this fact. The record supports AIC's position that the common equity balance should be reduced by $350,833,351. This adjustment reflects a netting of accounting adjustments against the goodwill balance which is supported by the record of this proceeding. Substituting this value into Staff Ex. 24.0, Schedule 24.03 in place of the value used by Staff, $411,000,000, produces an average common equity balance of $1,889,251,000, which the Commission believes should be used for purposes of setting rates in this proceeding.

Ameren Ill. Co., Docket 11-0282, Order, pp. 53-54.

Mr. Gorman's proposal represents an abrupt—and unexplained—departure from this clear Commission precedent. Moreover, Mr. Gorman did not pursue his adjustment on rebuttal. The Commission should not approve it.

b. Purchase Accounting/Income Statement

Staff proposes to subtract an additional $105,536,599, however, in income statement purchase accounting adjustments, which flowed through to retained earnings. Staff claims, as its basis for this recommendation, that in Docket 04-0294 the Commission ordered AIC to reverse purchase accounting adjustments associated with the acquisition of IP for ratemaking purposes. (ICC Staff Ex. 4.0, p. 5.) More specifically, Staff asserts: (1) that AIC admits that it never reversed the net income-related purchase accounting adjustments for ratemaking purposes, nor did Illinois Power and (2) "the Company's Account 114 balance does not include $105.5 million of net income-related purchase accounting adjustments, which flowed through retained earnings." (ICC Staff Ex. 9.0, pp. 1-2.)

Staff's adjustment should be rejected, as it has been by the Commission in two dockets before, because income statement purchase accounting adjustments which flowed through to retained earnings have been eliminated through dividends, so that Staff's proposal does not fully eliminate the effects of purchase accounting. As detailed below:

- The Commission has rejected Staff proposals on this same issue in AIC's initial formula rate case, Docket 12-0001, as well as in the last AIC gas rate case, Docket 11-0282.
- AIC has reversed all net income related purchase accounting for ratemaking purposes by removing the effects of purchase accounting from the income statement balances of revenues and expenses and eliminating the derivative effects of purchase accounting related retained earnings from the retained earnings balance through the payment of dividends.
- Staff's adjustment contravenes the Commission's Order in Docket 04-0294

because it does not remove all purchase accounting associated with the acquisitions at issue.

Staff's Purchase Accounting Adjustment Was Rejected in Docket 12-0001 and Has Not Been Adopted in Other Recent Dockets.

Staff has now proposed purchase accounting adjustments in three Ameren Illinois dockets—Dockets 11-0282, 12-0001 and 12-0293. *Ameren Ill. Co.*, Docket 11-0282, Order (Jan. 10, 2012), *Ameren Ill. Co.*, Docket 12-0001, Order (Sept. 19, 2012), *Ameren Ill. Co.*, Docket 12-0293, Order (Dec. 5, 2012). The Commission has not adopted these adjustments in any of these cases. In particular, in Docket 12-0001, Staff made a similar proposal to add back income statement purchase accounting adjustments that flowed through retained earnings. The Commission did not accept the proposal, concluding that "AIC has followed all accounting rules and Commission Orders relating to its accounting for purchase accounting, or push down accounting, the Commission rejects Staff's proposed adjustment to common equity balance." *Ameren Ill. Co.*, Docket 12-0001, Order, p. 119.

In that case, as here, AIC adjusted its common equity balance by excluding the effects of purchase accounting. *Ameren Ill. Co.*, Docket 12-0001, Order, p. 115. Regarding income statement purchase accounting adjustments that flowed through to retained earnings, Staff disagreed with AIC's contention that the dividends reduced the retained earnings resulting from purchase accounting. AIC countered that dividends are clearly paid in cash, but the payment of dividends reduces retained earnings (a component of equity), and was contingent upon the Company having retained earnings from which to pay the dividends. *Id.*, at 118. AIC argued that Staff's approach would reverse the collapsing of the purchase accounting entries, without considering whether the earnings were actually still retained by AIC, and while leaving the effects of push-down accounting partially in place. *Id.*, at 116. The Commission found that, despite Staff's implications, it could not find an instance where AIC had violated any accounting

rules. *Id.* Because AIC had followed all accounting rules and Commission orders related to purchase accounting, the Commission rejected Staff's proposed adjustment to the common equity balance. *Id.*

Likewise, in Docket 11-0282, AIC proposed to remove from its common equity balance all effects of the accounting entries related to purchase accounting, in a manner consistent with the Commission's Order in Docket 04-0294. *Ameren Ill. Co.*, Docket 11-0282, Order, p. 48. Staff expressed concern that AIC had not made an adjustment to reflect the absence of common dividends paid from the retained earnings associated with the purchase accounting. *Id.*, at 52. Staff argued that dividends do not represent a reversal of purchase accounting adjustments to net income, because dividends are not paid specifically from a particular type of earnings. *Id.*

The Commission found that Staff had failed to respond to AIC's evidence showing that the purchase accounting adjustments were netted against goodwill, or to the evidence that the two items were intertwined in a manner that one element could not be extracted. *Id.*, at 54. The Commission believed that, in this regard, Staff's arguments were overly simplistic. *Id.*

Staff also raised these same issues in Docket 12-0293. *Ameren Ill. Co.*, Docket 12-0293, Order, p. 107. The Commission adopted Staff's imputed capital structure proposal, and therefore took no action on Staff's purchase accounting adjustment. *Id.*

AIC Has Reversed All Net Income Related Purchase Accounting For Ratemaking Purposes.

Staff argues that (notwithstanding the adjustment to common equity to reflect the balance sheet adjustments collapsed in Account 114), AIC has not reversed $105 million of net income related purchase accounting adjustments for ratemaking purposes. (ICC Staff Ex. 9.0, pp. 8-9.) But in fact, AIC has reversed all net income related purchased accounting for ratemaking purposes.

Net income purchase accounting takes two forms—the first is an impact on revenue and expense balances on the income statement, and the second is the derivative effect of purchase accounting retained earnings. (Ameren Ex. 18.0 (2d Rev.), pp. 51-52.) The Order in Docket 04-0294 requires AIC to reverse the effect of push down accounting for state regulatory purposes, and AIC has done so consistently with respect to both forms of net income purchase accounting.

AIC has removed the effects of purchase accounting from the income statement balances of revenues and expenses in this case, including adjustments made to Account 926 to remove purchase accounting. (Ameren Ex. 18.0 (2d Rev.), p. 51.) The elimination of purchase accounting within income tax expenses is accomplished through transition to the test year calculation that excludes purchase accounting on Part 285 Schedule 5a. (*Id.*) The Company has consistently eliminated purchase accounting from revenues and operating expenses in this manner in each rate proceeding since the Order issued in Docket 04-0294. (*Id.*)

AIC has also eliminated the derivative effects of purchase accounting related retained earnings from the retained earnings balance in this and past rate proceedings. (Ameren Ex. 18.0 (2d Rev.), pp. 51-54.) AIC's evidence reflects a detailed analysis of the derivative effects of purchase accounting related retained earnings. (*Id.*; *see also* Ameren Ex. 18.7.) For each year going back to 2004, AIC has differentiated between net income attributable to purchase accounting and net income *not* attributable to purchase accounting. Purchase accounting related net income, less the portion of common dividend payments attributed to purchase accounting net income,[15] was calculated to determine if any ratemaking adjustment was needed to reverse the effects of purchase accounting for regulatory purposes. (*Id.*)

[15] As a matter of financial accounting, payment of dividends has the effect of reducing retained earnings, which is a component part of shareholders' equity on the balance sheet. (Ameren Ex. 18.0 (2d Rev.), p. 52.)

Although AIC cannot simply reverse the derivative effects of purchase accounting net income on its books, as Staff implies, AIC has reduced retained earnings with a ratemaking adjustment when the purchase accounting related to net income retained by AIC has a positive balance for the test year or reporting year for Form 21 ILCC. (Ameren Ex. 18.0 (2d Rev.), pp. 52-53.) In Docket 07-0585 (cons.) AIC made such a ratemaking retained earnings adjustment, since a portion of purchase accounting related retained earnings was retained by AIC. (*Id.*) Subsequently, the balance of purchase accounting related retained earnings retained by AIC has been negative, and no adjustment has been made. (*Id*., pp. 52-54.)

In this case, the calculated ratemaking retained earnings adjustment is negative, in the amount of ($2,834,790). (Ameren Ex. 18.0 (2d Rev.), p. 54.) AIC has not made an adjustment to add an amount to retained earnings (and thus to the common equity balance) to eliminate or reverse the negative balance. (*Id*.) If any adjustment were to be made, however, an increase to common equity would be appropriate. (*Id.*)

In summary, net income related to purchase accounting is no longer retained by AIC, as the balance recorded to retained earnings has been paid out in common dividends, consistent with the Commission's finding in Docket 12-0001. Thus, Staff's proposed adjustment to the common equity balance for net income purchase accounting is not appropriate.

In testimony, Staff claims as the basis for its position that AIC "admitted" that it never reversed the effects of net income related to purchase accounting for ratemaking purposes. (ICC Staff Ex. 9.0, p. 1, *citing* Data Response RMP 4.01 in Docket No. 12-0001.) However, Staff mischaracterizes the referenced RMP 4.01 Response. To begin with, the question asked, "Has Ameren subsequently reversed or written-off the $63.7 million *for financial reporting purposes* in any financial reports…" not *ratemaking* purposes (ICC Staff Ex. 9.0, Attach. A (emphasis

added).) The response goes on to explain (as also explained above) that the retained earnings adjustment was effectively eliminated through the payment of common dividends. While a ratemaking retained earnings adjustment was made in Docket 07-0585 (cons.), none has been made since because the balance of purchase accounting related retained earnings has been $0, due to payment of dividends, or negative ratemaking retained earnings adjustment balances, as discussed above.

Staff also suggests that AIC's Account 114 balance does not include $105 million of net income-related purchase accounting adjustments that flowed through retained earnings, and this is contrary to the requirement of Docket 04-0294. (ICC Staff Ex. 14.0, p. 10.) However, there are two flaws in Staff's position. First, it conflates the requirement from Docket 04-0294 that AIC "reverse the effect of push down accounting for state regulatory purposes" with the Commission's decision to "adopt[] the recommendation of Staff witness Ms. Pearce that the impact of push down accounting should be collapsed into Account 114, plant acquisition adjustments, for all Illinois regulatory purposes…" *Illinois Power Co.*, Docket 04-0294, Order, pp. 33-34. The first requirement is broader, since it speaks to "effects of push down accounting" generally, while the second requirement refers more narrowly to Account 114. Staff improperly assumes that the two requirements are one and the same. Second, Staff's position is flawed because it confuses Account 114, a balance sheet account, with AIC's income statement and other financial statements, which are separate and distinct. (Tr. 372-73.) As a matter of accounting, these financial statements cannot be intermingled, as would have to happen for the $105 million of income statement purchase accounting to be reflected in Account 114 as Staff suggests. As AIC witness Mr. Ronald D. Stafford explained:

> Q. [w]hy AIC net income-related purchase accounting adjustments were not collapsed into ICC Account 114?

> A. Well, the net income purchase accounting adjustments are on a separate financial statement from Account 114. Account 114 has a balance sheet account, and when you're looking at balance sheet accounts, you can collapse balance sheet accounts together. I'm not sure there's any way, from an accounting standpoint, to collapse income statement balances into a balance sheet account, so the recording of net income purchase accounting, since it's income statement-related, is not collapsed into Account 114, [as] it's not a balance sheet account-related, but rather is eliminated for rate-making purposes to comply with the order in 04-0294.

(Tr. 199:3-18.)

In other words, you cannot, as a matter of accounting, collapse income statement balances into a balance sheet account, as Staff proposes.

Staff's Adjustment Contravenes the Commission's Order in Docket 04-0294 Because it Does Not Remove All Purchase Accounting Associated with the Acquisitions at Issue.

In fact, it is Staff's proposal that violates the Order in Docket 04-0294. (Ameren Ex. 17.0 (Rev.), p. 20.) Staff's proposal to remove $105 million in net income purchase accounting fails to account for the fact that net income purchase accounting has been removed by AIC for ratemaking purposes, and in particular that the effect of net income purchase accounting on retained earnings has been eliminated through dividends. Staff's proposal, then, would have the effect of *not* reversing the effects of purchase accounting, in contravention of the order in Docket 04-0294.

3. Balance and Embedded Cost of Long-Term Debt

For the reasons discussed above, the Commission should reject Staff's hypothetical and imputed capital structure and approve AIC's prudently managed, actual capital structure for year-end 2012. (*See* Section IV.B.1, *supra*.) Consequently, it should approve AIC's long-term debt balance of $1.595 million, which comprises 44.00% of that actual capital structure. (Ameren Ex. 4.1 (Martin Supp. Dir.), p. 2.) That debt balance includes the redemption cost AIC actually incurred in 2012 in connection with a debt refinancing transaction that yielded positive

net present value economics. Staff, however, would disallow a majority of that cost. Apart from its proposed hypothetical capital structure—which is neither supported by the law nor the record evidence—Staff believes the Commission should approve a long-term debt balance less than that actually held by AIC in 2012. But while AIC's position is premised on the prudency of the transaction, Staff's is premised on a misapplication of Commission precedent. Staff's position is also legally untenable, and it results in a grossly disproportionate impact on AIC's revenue requirement. Ultimately, the question is whether AIC's redemption of the debt in 2012 was prudent. As explained below, it was. The Commission should approve full recovery of AIC's prudently incurred redemption cost and, consequently, its actual 2012 long-term debt balance.

In October 2008, during the height of the financial crisis, AmerenIP issued $400 million of debt with a coupon rate of 9.75% due in 2018. (ICC Staff Ex. 4.0 (Rev.) (Martin Dir.), p. 3.) In October 2010, AmerenIP merged with AmerenCILCO into AmerenCIPS, forming AIC. *Ameren Ill. Co.*, Docket 11-0282, Order, p. 1. In July 2012, AIC announced a tender offer to repurchase the 9.75% notes, and in August 2012, it redeemed $87.1 million of the notes upon the payment of premiums totaling $33.4 million. The same month, AIC issued $400 million of 2.70% senior secured notes due in 2022. (Ameren Ex. 12.0 (Rev.) (Martin Reb.), p. 2.) AIC used the net proceeds of that refunding issue to fund the premium cost of the 9.75% bond redemption. The combined transaction yielded positive net present value economics on a matched maturity basis and resulted in annual interest savings for AIC. (*Id.*) It lowered the average cost and extended the average maturity of AIC's long-term debt portfolio, and mitigated the refinancing risk associated with AIC's 2018 debt tower. (Ameren Ex. 20.0 (Martin Sur.), p. 7.) Put simply, the combined transaction was an economically favorable one, and the associated cost to redeem the 9.75% bonds was thus prudently incurred. (Ameren Ex. 12.0 (Rev.), pp. 2-3.)

Staff, nevertheless, would disallow a majority of that cost. (ICC Staff Ex. 4.0, p. 3.) Staff recommends that the Commission disallow 57.41% of the premiums paid by AIC to redeem the 9.75% bonds, which equates to zero recovery on the first $50 million of the $87.1 million of bonds redeemed. (*Id.*) Staff bases its proposal on the Commission's orders in AIC's last two gas rate cases: Dockets 09-0306, et al. (cons.) and 11-0282. (*Id*.) The issues and facts in those cases, however, are different from those at bar. Consequently, any adjustment to AIC's long-term debt balance premised on those dockets is misplaced and should be rejected.

In Docket 09-0306, the Commission addressed the issue of whether the principal amount of the October 2008 AmerenIP debt issuance should be included in that utility's test year capital structure. *Cent. Ill. Light Co.*, Dockets 09-0306, et al. (cons.), Order, p. 143 (Apr. 29, 2010). The Commission found AmerenIP had issued $50 million more long-term debt than it required for utility operations and, as such, $50 million of the principal amount of the 9.75% debt issuance should not be included in AmerenIP's long-term debt balance. *Id*. In Docket 11-0282, the Commission again addressed the propriety of, and disallowed, $50 million of the $400 million principal of the 9.75% bond issuance, this time for the purpose of calculating the now-merged utilities' embedded cost of long-term debt. *Ameren Ill. Co.*, Docket 11-0282, Order, pp. 75-76. Staff relies on these orders to propose here that AIC not recover the cost it incurred to redeem the first $50 million of the $87.1 million in 9.75% bonds that it redeemed in 2012. (ICC Staff Ex. 4.0, p. 3.)

The issue in this case is different than in the previous dockets. The issue here is the cost AIC incurred in 2012 to redeem a portion of the October 2008 9.75% bond issuance in connection with a transaction that secured for AIC a lower rate and extended the maturity of its long-term debt. (Ameren Ex. 12.0 (Rev.), p. 3.) The Commission's past disallowance of a

portion of the total principal 9.75% issuance is irrelevant. It does not warrant an automatic adjustment to the premiums AIC paid in 2012 to redeem that debt.

The facts of this case also are different from the facts of Dockets 09-0306, et al. (cons.) and 11-0282. When the Commission reviewed the AmerenIP October 2008 debt issuance in Dockets 09-0306, et al. (cons.), AmerenIP, AmerenCIPS, and AmerenCILCO were separate legal entities with separate capital structures and separate rates. (Ameren Ex. 12.0 (Rev.), p. 4.) The Commission premised its adjustment in that case on the propriety of an intercompany loan among those separate legal entities—specifically from AmerenIP to AmerenCIPS. *Central Ill. Light Co.*, Dockets 09-0306, et al. (cons.), Order, p. 143. The view proffered by Staff in those dockets, and accepted by the Commission, was that AmerenIP should have called back the $50 million money pool loan made to AmerenCIPS in October 2008 instead of issuing all $400 million in long-term debt. (Ameren Ex. 20.0, p. 4.) The concern was cross-subsidization between AmerenIP and AmerenCIPS. (*Id*.)

This case involves *AIC*, however, which was formed upon merger of those entities. (Ameren Ex. 12.0, (Rev.) p. 4.) That merger negates any cross-subsidization concern. AIC has a capital structure that is common to all rate zones and that incorporates each of the merged entities. (*Id*.) The $50 million in question is a necessary component of *AIC's* capital structure. (*Id.*) Whether AmerenIP or AmerenCIPS ultimately required the debt is irrelevant to *AIC's* current capital structure. (*Id*.) Since the $50 million of long-term debt was required by AIC, any cost disallowance associated with tender of the bonds is unwarranted.

The Commission should premise recovery of the redemption cost at issue on the law, and the law here is clear: AIC is entitled to recover its prudently incurred costs in providing service. *Citizens Util. Bd. v. Ill. Commerce Comm'n*, 166 Ill. 2d 111, 126 (1995); *Bus. & Prof'l People*

for the Pub. Interest vs. Ill. Commerce Comm'n, 279 Ill. App. 3d 824, 831-32 (1996). The EIMA specifically mandates "recovery of the utility's actual costs of delivery services that are *prudently incurred* and reasonable in amount consistent with Commission practice and law." 220 ILCS 5/16-108.5(c)(1) (emphasis added). With regard to capital structure, the plain language of Section 16-108.5(c)(2) requires formula rates that "[r]eflect the utility's *actual capital structure* for the applicable calendar year, excluding goodwill, subject to a determination of prudence and reasonableness consistent with Commission practice and law." 220 ILCS 5/16-108.5(c)(2) (emphasis added). The Commission defines prudence as "'that standard of care which a reasonable person would be expected to exercise under the same circumstances encountered by utility management at the time decisions had to be made.'" *Ill. Commerce Comm'n v. Peoples Gas Light & Coke Co.*, Docket 00-0720, Order, p. 6 (Jan. 24, 2002) (*quoting Ill. Commerce Comm'n v. Commonwealth Edison Co.*, Docket 84-0395, Order, p. 17, 1987 Ill. PUC LEXIS 68, *34 (Oct. 7, 1987)). In evaluating the prudency of a management decision, "'[h]indsight review is impermissible.'" *Id.* The Commission has cautioned, "'[i]mprudence cannot be sustained by substituting one's judgment for that of another.'" *Id.*

Staff does not dispute that AIC's 2012 redemption of the 9.75% bonds was prudent. (Ameren Ex. 20.0, pp. 5-6.) Nor could it. That redemption combined with the 2.70% reissuance represents an economically favorable transaction. (Ameren Ex. 20.0, p. 5.) AIC's expert witness on this issue, Mr. Ryan Martin, explained that when utility bonds near or reach their maturity, generally, they are refinanced or replaced with a bond that matures at a time farther into the future, to mitigate the utility's financing risk. (*Id.*, p. 6.) Also, when the opportunity exists, the utility will replace a bond with a high coupon rate with a bond with a lower coupon rate to reduce the utility's costs, which ultimately benefits its customers. (*Id.*, pp. 6-7) That is precisely

what happened here. The combined 2012 transaction resulted in positive net present value economics on a matched-maturity basis, reduced AIC's average cost of debt, and extended the average duration of the AIC's long-term debt portfolio. (*Id.*, p. 7.) Indeed, even if AmerenCIPS had paid back the $50 million loan in 2008 and replaced it with its own long-term debt, AIC likely would have redeemed that debt in 2012 as well, given the new rate of 2.70%, which is much lower than the relatively high interest rates experienced during the 2008 credit crisis. (*Id.*, p. 5.) The combined 2012 transaction was financially sound, and it benefited both AIC and its customers. (Ameren Exs. 12.0 (Rev.), pp. 2-3; 20.0, p. 7.) It reflects AIC management's prudent judgment. To suggest that AIC should not have redeemed the bonds in 2012 and incurred the attendant cost would be to substitute hindsight review for that prudent judgment. That is not a legally sustainable basis on which to disallow any portion of the cost of the 2012 transaction, including the premiums paid by AIC to redeem the bonds. *See Ill. Comm. Comm'n. v. Peoples Gas Light and Coke Co.,* Docket 00-0720, Order, p. 6.

The Commission also should reject Staff's adjustment because it is grossly disproportionate. (Ameren Ex. 20.0, pp. 7-8.) In Docket 11-0282, the Commission approved full recovery at 9.75% of $350 million of the $400 million total issuance. *Ameren Ill. Co.*, Docket 11-0282, Order, pp. 70, 76. It allowed recovery of the remaining $50 million at the weighted average cost of debt for Ameren, 7.39%. *Id.* In other words, the Commission approved 100% recovery of the actual cost of debt on $350 million of the issuance, and approximately 75% recovery on the remaining $50 million. (Ameren Ex. 12.0 (Rev.), p. 5.) That equates to a disallowance of approximately 3% of the total cost of the 9.75% debt. (*Id.*) For this reason, in accordance with Docket 11-0282, AIC's 2012 actual capital structure reflects a cost for the first $50 million of the debt issuance at 7.31%, rather than the coupon rate of 9.75%. (Ameren Ex.

4.0 (Rev.), p. 9.) Yet here, Staff would disallow a majority—57.41%—of the prudent cost to redeem the debt. (ICC Staff Ex. 4.0, p. 3.) Staff's proposal effectively disallows entirely the redemption cost associated with the first $50 million of the $87.1 million of the bonds AIC redeemed.[16] That adjustment has an annual revenue requirement impact of approximately $1 million. (Ameren Ex. 12.0 (Rev.), p. 3.) It is unquestionably inconsistent with the Commission's prior 3% adjustment, and it unduly punishes AIC for its prudent 2012 refinancing action. The Commission should reject Staff's adjustment, and allow AIC to recover in full the costs it prudently incurred in connection with that transaction.

AIC's 2012 embedded cost of long-term debt is 7.31%. (Ameren Ex. 4.0 (Rev.), p. 9.) Staff proposes a reduced cost of long-term debt of 7.10%. (ICC Staff Ex. 4.0, p. 15.) The difference is largely attributable to the rebalancing implications of Staff's adjustment to remove a majority of AIC's 2012 prudent refinancing transaction. For the reasons above, the Commission should not approve Staff's adjustment; likewise, it should not approve a reduction to AIC's 2012 cost of long-term debt.

4. Balance and Embedded Cost of Short-Term Debt, including Cost of Credit Facilities

The parties agree that the balance and cost of AIC's short-term debt, excluding credit facility fees, should be 0.00%. The only dispute concerns the weighted cost of AIC's credit facilities to incorporate into its 2012 capital structure. AIC's overall cost of capital should reflect the actual cost AIC incurred to use its credit facilities that year. Staff, however, would adjust AIC's credit facilities fees to a conjectural level based on a misapplication of Section 9-230 of the Act and speculation as to what a third-party—S&P—might do in the future. For the reasons above, the Commission should approve AIC's prudently managed 2012 capital structure, and not

[16] $50,000,000 / 87,100,000 = 0.5741.

a hypothetical one. Likewise, it should approve an overall cost of capital that incorporates AIC's actual credit facility fees in 2012.

AIC proposes a weighted cost of 0.07% for its credit facilities fees, which reflects the fees AIC actually incurred in 2012 to use its credit facilities. (Ameren Exs. 4.0 (Rev.) (Martin Dir.), p. 10; 1.3R, Sch. 1, p. 13.) Those fees are fair, reasonable, and consistent with the market. (*Id*.) One of the credit facility fees AIC incurred in 2012 is an annual interest rate that varies with AIC's credit ratings from Moody's and S&P. (ICC Staff Cross Ex. 15, p. 1.) Based on AIC's 2012 ratings of Baa2 and BBB from Moody's and S&P, respectively, in 2012, this annual fee was calculated at LIBOR plus 2.25% and applied to the balance of AIC's credit facilities. (*Id.*) Accordingly, that is the rate AIC used to calculate the weighted cost of its credit facilities in this proceeding.

Staff proposes to recalculate that actual 2012 rate to reflect what the rate *would* be if a single rating agency, S&P, upgrades AIC's credit rating in the fourth quarter of 2013. (ICC Staff Cross Ex. 15, p. 1.) If S&P upgrades AIC to BBB+, it will reduce the subject fee to LIBOR plus 1.75%. (*Id*.) From this, Staff derives its proposed weighted cost of credit facility fees of 0.06%. (ICC Staff Ex. 4.0, Sch. 4.01.) Staff bases its speculation on a single S&P publication, its March 14, 2013 Research Update for Ameren Corp. (ICC Staff Ex. 4.0, pp. 13-14.) According to Staff, the report suggests S&P might upgrade AIC upon the divestiture of Ameren Corp.'s merchant generation affiliate in December 2013. (*Id.*, p. 14.) From this Staff concludes, absent its affiliation with that entity, AIC's senior unsecured credit rating from S&P would be higher, and its annual credit facility pricing rate would be lower. (ICC Staff Ex. 4.0, p 14.)

Staff's position is problematic for three reasons. First, as explained in Section IV(B)(1) *supra*, AIC's prudently managed actual 2012 year-end capital structure should not be substituted

with a hypothetical one based on conjecture as to its association with an unregulated affiliate. Second, the S&P report on which Staff relies is forward-looking; it is not applicable to the 2012 period at issue in this proceeding. (Ameren Ex. 20.0 (Martin Sur.), p. 9.) Third, Staff's position ignores it is just as easy to speculate as to occurrences that would drive AIC's credit rating down, such as continued, successive counter-constructive rate proceedings. (Ameren Ex. 12.0 (Rev.) (Martin Reb.), p. 6.) In fact, S&P identifies in its report offsetting risks that could preclude an upgrade:

> The placement of the Ameren, AI, and AM ratings on CreditWatch with positive implications reflects the high probability of a further upgrade following the completion of the merchant sale. The CreditWatch placement also reflects our base case post transaction forecast that has FFO to debt of about 20% and debt to EBITDA at about 4x. These financial measures are consistent with the significant financial risk profile category and when viewed together with Ameren's excellent business risk profile, could support a modestly higher rating. *Key risks to our forecast include the outcomes of future rate cases and our expectations for continued weak economic growth within the company's regulated service territory.* We *could* upgrade Ameren and its regulated subsidiaries *if* the company closes the transaction in a timely manner while meeting our expected financial measures.

(Ameren Ex. 20.1, p. 7 (S&P Mar. 14, 2013 Research Update) (emphasis added).)

The problem with Staff's position is that no one can predict with certainty the actions of the ratings agencies. As such, it is more reasonable to calculate AIC's credit facility fee based on its actual credit rating in effect as of December 31, 2012, as AIC has done, in calculating its overall cost of capital in this proceeding.

C. Recommended Overall Rate of Return on Rate Base

1. Filing Year

AIC recommends an 8.11% pre-tax weighted average cost of capital be approved, as shown in Schedule FR A-1 of Appendices A and B.

2. Reconciliation Year

AIC recommends an 8.16% pre-tax weighted average cost of capital be approved, as shown in Schedule FR A-1 REC of Appendices A and B.

V. COST OF SERVICE AND RATE DESIGN

Section 16-108.5(c)(6) of the PUA states that "[u]ntil such time as the Commission approves a different rate design and cost allocation pursuant to subsection (e) of this Section, rate design and cost allocation across customer classes shall be consistent with the Commission's most recent order regarding the participating utility's request for a general increase in its delivery services rates." 220 ILCS 5/16-108.5(c)(6). As described in the direct testimony of AIC witness Mr. Ryan K. Schonhoff, AIC has filed in this proceeding rate design and cost allocation methodologies that are consistent with those relied upon in Dockets 09-0306/9-0311 (cons.) and confirmed by recent orders issued in Dockets 12-0001 and 12-0293. (*See* Ameren Ex. 7.0 (Schonhoff Dir.), p. 2: 32-27.) This consistency results in Rate MAP-P pricing that (1) is based on AIC's updated net revenue requirement (including the 2012 true-up reconciliation); (2) appropriately relies on separate Rate Zone net revenue requirements and embedded class cost of service study results; and, (3) will flow through the Rate MAP-P tariffs as approved by the Commission in Dockets 12-0001 and 12-0293. (*See id.*, p. 4:67-75; *see also* Ameren Ex. 7.0S (Schonhoff Supp. Dir.) (revising certain charges and pricing due to a change in the Company's net revenue requirement resulting from passage of P.A. 98-0015).)

Pursuant to Section 16-108.5(g) of the PUA, the Company has also provided the average amount paid per kWh for residential eligible retail customers, exclusive of the effects of energy efficiency, for the 12-month period ending May 31, 2012, and determined such amount to be 10.593¢/kWh.

No party filed testimony in opposition to the Company's proposed rate design or cost of

service methodologies and no party has challenged the Company's calculation of price per kWh required by Section 16-108(g) of the Act. The Company views rate design and cost-of-service issues to be "non-contested" and requests the Commission approve the methodologies reflected in the direct and supplemental direct testimonies and accompanying exhibits of AIC witness Mr. Schonhoff, respectively labeled as Ameren Exhibits 7.0-7.6, 7.0S-7.6S, 7.7, 7.8, and 7.9.

A. Resolved Issues

VI. FORMULA RATE TARIFF

A. Separate Proceeding in Docket Nos. 13-0501/13-0517 to Litigate Merits of Proposed Template Changes

B. Process for Implementation of Formula Rate Template Changes in Docket No. 13-0301, if Approved in Docket Nos. 13-0501/13-0517

C. Proposed Template Changes in Docket Nos. 13-0501/13-0517 (for Purpose of Identification of Revenue Requirement Impact if Approved)

1. Uncollectible Expenses in the Reconciliation Year

2. Gross-up of Reconciliation with Interest and/or Collar revenue requirement adjustments for Uncollectible Expense

3. Year-end balances for Materials & Supplies and Customer Deposits

4. Depreciation Expense

5. Separate Cash Working Capital Calculation for Filing and Reconciliation Year

6. Return on Equity Collar Calculation

7. Reconciliation Interest Calculation

D. Recommended Revenue Requirement

1. Filing Year

2. Reconciliation Year

VII. OTHER ISSUES

A. Resolved Issues

1. UCB/POR Program Costs

In his direct testimony, Staff witness Mr. Ostrander questioned whether all costs related to the UCB/POR Program had been removed from the revenue requirements proposed by AIC. (ICC Staff Ex. 2.0, pp. 19-20.) AIC witness Mr. Stafford clarified that all costs related to UCB/POR had been removed from the revenue requirements, and stated that no further adjustments were necessary for uncollectibles or administrative costs. (Ameren Ex. 9.0 (Rev.) (Stafford Reb.), pp. 15-16.) Staff did not propose any adjustments related to the UCB/POR Program in rebuttal testimony, and AIC therefore considers this issue resolved.

2. FERC Order – Docket No. AC 11-46-000

Staff witness Mr. Ostrander also requested that AIC address the impact of a June 20, 2013 FERC Order entitled "Order Rejecting Refund Report and Providing Guidance" on AIC's revenue requirements in its rebuttal testimony. (ICC Staff Ex. 2.0, p. 19.) AIC witness Mr. Stafford explained in his rebuttal testimony that the FERC Order did not impact the revenue requirement in this case, because the refund report applied to transmission rates. (Ameren Ex. 9.0 (Rev.) (Stafford Reb.), p. 15.) Staff did not propose any adjustments related to the FERC Order in rebuttal testimony, and AIC therefore considers this issue resolved.

3. Reporting Requirement – FERC Form 60

Staff witness Ms. Pearce recommended that the Commission order AIC to provide the Manager of Accounting of the Commission with an electronic copy of AIC's FERC Form 60 on the day it is filed with FERC. (ICC Staff Ex. 3.0, pp. 13-14.) Ms. Pearce stated that FERC Form 60 contains summary financial information that is used by Staff in their analysis of intercompany transactions pursuant to Commission-approved affiliated interest agreements, but AIC is not

required to file the report with the Commission. (*Id.*, p. 14.) AIC accepted this recommendation (Ameren Ex. 9.0 (Rev.) (Stafford Reb.), p. 7), and therefore considers this issue resolved.

4. Reporting Requirement – Service Company Allocations

Staff witness Ms. Pearce also recommended that the Commission order AIC to notice the Manage of Accounting of the Commission within 30 days of implementing any substantial changes to service company allocation factors. (ICC Staff Ex. 3.0, p. 14.) Ms. Pearce stated that Staff reviews the allocation factors to ensure their reasonableness, and must therefore have access to the most current allocation factors. (*Id.*) AIC accepted this recommendation (Ameren Ex. 9.0 (Rev.) (Stafford Reb.), p. 7), and therefore considers this issue resolved.

5. Reporting Requirement – FERC Orders

In addition, Staff witness Ms. Pearce recommended that the Commission order AIC to provide electronic copies of all FERC orders resulting from a FERC audit of costs or procedures that are subject to allocation or assignment to AIC and any responses to FERC by AIC, to the Manager of Accounting of the Commission. (ICC Staff Ex. 3.0, p. 15.) Ms. Pearce stated that these FERC orders could impact transactions between Ameren Services and its affiliates, including AIC, and are used by Staff in their analysis of intercompany transactions, but the forms are not required to be filed with the Commission. (*Id.*) AIC accepted this recommendation (Ameren Ex. 9.0 (Reb.) (Stafford Reb.), p. 7), and therefore considers this issue resolved.

6. Supply Cost Adjustments Under Rider PER

Staff witness Ms. Ebrey proposed that AIC work with Staff to develop revised tariff language for Rider PER that would allow for updates to the Supply Cost Adjustment factors, and file a revised tariff with the Commission within 60 days of the date of Staff's Direct Testimony in this proceeding. (ICC Staff Ex. 1.0, p. 25.) AIC agreed with Ms. Ebrey that the Rider PER language should be modified, but proposed to share revisions with Staff no later than September

30, 2013 and make a tariff filing by October 15, 2013. (Ameren Ex. 9.0 (Rev.) (Stafford Reb.), p. 50.) Ms. Ebrey accepted this proposal (ICC Staff Ex. 6.0, p. 21), and AIC therefore considers this issue resolved for purposes of this proceeding.

7. Categorization EIMA Plant Additions – Formula Rate Proceedings

Staff witness Mr. Ostrander recommended that the Commission include language in its order in this proceeding identifying the details of the actual and projected plant additions by categories, and stated that categorization of the plant additions related to EIMA is required by Section 16-108.5(b)(2). (ICC Staff Ex. 2.0, pp. 20-22.) AIC did not object to the categorization of the plant additions, but objected to the inclusion of the phrase "as required by Section 16-108.5(b)(2)" in Mr. Ostrander's proposed conclusion. (Ameren Ex. 10.0 (Getz Reb.), pp. 3-4.) In rebuttal testimony, Staff acknowledged that the categorization of the plant investments was flexible, and revised its proposed conclusion accordingly. (ICC Staff Ex. 7.0, p. 28.) AIC accepted this revised language (Ameren Ex. 22.0 (Getz Sur.), p. 9), and therefore considers this issue resolved.

8. Reporting of EIMA Costs – Formula Rate Proceedings

Staff witness Ms. Ebrey sought information regarding the "incremental amounts of [operations and maintenance] costs that the Company has incurred due to EIMA." (ICC Staff Ex. 6.0, p. 16.) In response, AIC witness Mr. Getz provided detailed exhibits identifying the operation and maintenance costs associated with the project numbers AIC established to track EIMA-related capital projects. (Ameren Exs. 10.2, 10.3.) Mr. Getz noted that these exhibits did not quantify every dollar incurred throughout AIC that might be indirectly related to EIMA. (Ameren Ex. 22.0 (Getz Sur.), p. 4.) As Mr. Getz explained, AIC does not separately track every expense related to EIMA because of the difficulty in parsing out internal, non-labor overhead costs. (*Id.*)

Ms. Ebrey also requested that the Commission order AIC to include a discussion and quantification of amounts of incremental costs associated with EIMA, but not specifically quantified in the law, in the annual EIMA report AIC provides to the Commission each March. (ICC Staff Ex. 6.0, p. 16.) AIC believes that the annual update and reconciliation proceeding would be a more appropriate venue for discussion of these costs, since it would provide the parties an opportunity to test the reasonableness and prudency of the actual electric delivery costs. (Ameren Ex. 22.0, p. 7.) In order to resolve the issue, AIC committed to providing the following information as part of its direct filing in its future update and reconciliation proceedings: (i) the operations and maintenance expenses directly charged to specific EIMA capital projects, categorized by project and FERC account number; and (ii) the operations and maintenance expenses directly charged to identified trackers, categorized by project and FERC account number. (*Id.*, p. 8.) This information will be presented in the aggregate in AIC's direct testimony, and will be supported by workpapers similar in form to Ameren Exhibits 10.2 and 10.3, filed in the current proceeding. (*Id.*) When presented with this proposal, Ms. Ebrey agreed to withdraw her recommendation that the information be included in AIC's annual EIMA report. (Ameren Cross Ex. 1.) As a result of this proposed compromise, AIC considers this issue resolved.

B. Contested Issues

1. Use of Traditional Ratemaking Schedules in Formula Rate Proceedings

This is the first reconciliation proceeding for AIC. AIC believes that, based on experience with the formula rate structure and protocols through this first reconciliation, the Commission should include a populated formulae template in its appendices to a final order in an update/reconciliation proceeding. (Ameren Ex. 25.0 (Rev.) (Mill Sur.), p. 6.) Staff would prefer

that the final order appendices include only the "traditional" revenue requirement schedules. (ICC Staff Ex. 6.0, pp. 25-26.) AIC does not necessarily oppose use of such traditional schedules as appendices to a final order, but if they are used, the appendices should also include a populated formula rate template. (Ameren Ex. 17.0 (Mill Reb.), p. 9.)

Otherwise, it will be difficult to determine if Staff's (or anyone's) recommended cost input adjustments are compatible with the approved formula rate template. (Ameren Ex. 17.0, p. 9.) This is particularly true, where, as in this case, there were proposed adjustments that did not align between traditional ratemaking schedules and the formula template and in fact will require template changes. (Ameren Ex. 25.0 (Rev.), p. 6.) Staff witnesses have not incorporated their adjustments within the formula rate template: Staff's cost inputs and revenue requirement summary schedules (ICC Staff Exhibit 1.0 (Corrected Schedules for the FY and RY periods)) result in different revenue requirements than the currently effective formula rate template and formulae. But Staff's calculated revenue would be different if Staff had used the authorized formulaic rate template sponsored by AIC and populated such template with Staff's proposed cost inputs. (Ameren Ex. 17.0, p. 9.) This type of competing rate schedules can only lead to confusion and possible inconsistencies. (Ameren Ex. 25.0 (Rev.), p. 7.) If Staff proposed cost inputs and revenue requirement, as represented in their schedules, cannot be replicated using the authorized formula rate template and formulae, then Staff's revenue requirement calculations must be synchronized to the amount calculated by the formula rate template. (Ameren Ex. 17.0, p. 9.) For this reason—to avoid confusion and inconsistency—the Commission's final order should include a populated formula template.

Staff claims in testimony that this issue was decided in ComEd's recent Docket 12-0321. (ICC Staff Ex. 6.0, pp. 25-26.) But in that case, no calculation alignment issues had been

identified between the traditional revenue requirement schedules and the formula rate. *Commonwealth Edison,* Docket 12-0321, Order, p. 105 (Dec. 19, 2012). As such, there was no reason to attach the *ComEd* populated formula rate template to the Final Order. Docket 12-0321 is not dispositive of AIC's position that the Final Order should also include a populated formula template and summary schedules with the approved update inputs.

2. Preparation of Exhibits, Schedules, and Workpapers in Formula Rate Proceedings

Staff witnesses Ms. Ebrey and Mr. Knepler expressed concern that Staff spent significant time "unraveling" the information provided by AIC in its filing. (ICC Staff Exs. 1.0, p. 26; 5.0, p. 7.) Ms. Ebrey recommended that AIC respond with a proposal to improve the quality of information provided in support of future formula rate filings. (ICC Staff Ex. 1.0, p. 30.) On rebuttal, Ms. Ebrey noted that AIC had provided sufficiently transparent information in its rebuttal testimony, but recommended that the Commission adopt rulings concerning the quality of information to be submitted in future formula rate cases. (ICC Staff Ex. 6.0, p. 28.) Mr. Knepler provided a list of recommended improvements to the Part 285 filing, exhibits and supporting workpapers. (ICC Staff Ex. 5.0, pp. 9-10.) Mr. Knepler's list included requirements that the amounts discussed in testimony should not differ, even slightly, from the amounts listed on supporting schedules; pagination of multi-page spreadsheets should be easier to understand; and data provided on certain workpapers should be combined into the relevant schedule. (*Id.*)

AIC has committed to making certain improvements in its subsequent filings, in response to several of the concerns raised by Staff. For example, AIC will attempt to ensure that amounts presented on schedules are not rounded when inserted into relevant testimony. (Ameren Ex. 9.0 (Rev.) (Stafford Reb.), p. 57.) AIC will also attempt to improve the pagination of multi-page spreadsheets in future filings. (*Id.*, p. 58.) In addition, AIC routinely provides Staff with

working versions of the Part 285 filings, including all schedules and workpapers, with working formulae intact. (*Id.*, p. 52.) In this proceeding, working versions of the Formula Rate Template and related workpapers were also provided to Staff. (*Id.*) These working spreadsheets enable Staff to trace all schedules, workpapers and exhibits back to other documents containing the same information. (*Id.*)

The remaining concerns expressed by Staff do not warrant a specific Commission directive as Staff recommends. First and most importantly, the type of concerns expressed by Staff should be (and typically are) addressed by parties through discovery. (Ameren Ex. 18.0 (2d Rev.) (Stafford Sur.), p. 61.) During the course of a typical rate case proceeding, AIC receives numerous data requests seeking reconciliation of numbers presented on different schedules or explanation of the differences between certain items. (Ameren Ex. 9.0 (Rev.), p. 52.) The instant proceeding is AIC's third electric formula rate proceeding, and Staff has not voiced any previous concerns regarding problems with AIC's schedules, exhibits, or workpapers, or issues in the discovery process, in previous proceedings. (*Id.*) This suggests to AIC that discovery has been appropriate and useful in resolving any questions. Moreover, it appears in the instant proceeding, when the discovery process was used, it was instrumental in addressing Staff's concerns. Ms. Ebrey, for example, issued 80 data requests, to which AIC provided timely responses that contained the information sought by Ms. Ebrey. (*Id.*, p. 55.) On the other hand, Mr. Knepler did not issue any data requests in this proceeding, despite his list of concerns. (*Id.*, p. 52.) In fact, Mr. Knepler's recommendations appear to be based only on his review of the unrevised schedules provided by AIC witness Mr. Kennedy in its initial filing. These schedules were subsequently updated, clarifying items about which Mr. Knepler expressed concern. In a case of this complexity and magnitude, some clarification through discovery will undoubtedly be

necessary, regardless of the care and effort expended in compiling exhibits and workpapers. The parties cannot foresee all potential relationships between the data presented on these documents, and the Commission should not endeavor to create rules governing the presentation of data that will change on a yearly basis. Instead, the parties and the Commission should rely on discovery as the proper means by which to address the questions that will surely arise.

Second, although AIC acknowledges Staff's recommendation that certain workpapers be combined into the relevant schedules, AIC believes the current format for workpapers and schedules is more compatible with the requirements of Part 285 of the Commission's Rules of Practice and Procedure. Generally speaking, Part 285 provides instructions that require summary data to be presented on Schedules, while Workpapers should be used to present supporting details. *See* 83 Ill. Admin. Code § 285.400 (describing Schedules), § 285.410 (describing Workpapers); *see also, e.g.* § 285.1025 (describing information to be presented on Schedule A-5, and, separately, the information to be presented on the supporting Workpaper). AIC would welcome any Commission guidance on the combination of Schedules and Workpapers. (Ameren Ex. 18.0 (2d Rev.), p. 62.)

Finally, AIC requests that, if the Commission does include directives in its order regarding the information in exhibits and workpapers, the findings be made applicable to AIC, Staff, and any intervenors in future formula rate proceedings. The concerns voiced by Staff are not one-sided, and could apply to any party's schedules and workpapers. In fact, AIC noted that it too had concerns with some Staff schedules and exhibits, though it sought to address these through discovery. (*Id.*)

VIII. CONCLUSION

For all of the above reasons, Ameren Illinois Company d/b/a Ameren Illinois the Commission should adopt the revenue requirement as proposed by Ameren Illinois Company

and reflected in Appendices A-C.

Dated: October 2, 2013

Respectfully submitted,

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CERTIFICATE OF SERVICE

I, Albert D. Sturtevant, an attorney, certify that on October 2, 2013, I caused a copy of the foregoing *Initial Brief of Ameren Illinois Company* to be served by electronic mail to the individuals on the Commission's Service List for Docket 13-0301.

/s/ Albert D. Sturtevant
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